

CURRENT HISTORY

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APRIL, 1988

Japan, 1988

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Current History

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May, 1988

The latest political, economic and social developments in South Africa, Zimbabwe, Mozambique, Ethiopia, Uganda, Zaire and Tanzania will be discussed in our May, 1988, issue on Africa. In addition, United States foreign policy toward Africa will be evaluated.

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Current History

APRIL, 1988

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This issue highlights Japan's political, labor and industrial problems and Japanese relations with the United States and with China, as well as Japan's new defense posture. As our introductory article notes, "[Today,] the prospects are bright for a continuation of Pacific deterrence based on United States-Japanese cooperation. . . ."

Japan's Defense Policy

BY JAMES E. AUER

Special Assistant for Japan, Office of the United States Assistant Secretary of Defense

Japan's 1988 defense budget may be the world's largest, surpassing the spending totals of Britain, France and West Germany.¹ To be sure, Japan is far from being a military superpower. But the center of the global economy has shifted from the Atlantic to the Pacific Basin, and Japan has a key geostrategic location in that area. Japan's high-technology air defense, antisubmarine and anti-invasion defense network, which complements United States offensive and defensive capability, has gradually but radically changed Japan's status. Instead of being a United States protectorate (a "free rider," in the view of some United States congressmen), Japan is assuming an indispensable role in Pacific deterrence. The change has been so gradual that many Americans and Japanese have still not recognized it.

It is relatively well known that Japan spends only a fraction over one percent of its gross national product (GNP) for defense, but it is less well understood that in the 1980's the Japanese Self-Defense Forces (JSDF) are becoming a meaningful element of the military balance in the Pacific and have indirectly assumed global influence on deterrence.

The change began before Yasuhiro Nakasone became Prime Minister of Japan in November, 1982, and would

probably have occurred (although more gradually) even if he had not remained in office until November, 1987. And while not all the changes during his five-year tenure can be attributed exclusively to his influence, during Nakasone's time in office Japanese defense policy became a factor of importance to Japan, to the United States, to the Soviet Union, to China, and thus at least indirectly to the rest of the world.

Nakasone understood geopolitics, and he probed to discover how far Japanese postwar taboos could be modified to find an appropriate defense role for Japan within the confines of its constitution and domestic political reality. Under Nakasone's leadership, the government of Japan abandoned the publicly popular one percent barrier on defense spending, which dated from 1976, and adopted a five-year defense program for 1986-1990, in which Japan's defense prowess is taking a quantum leap forward. The Nakasone Cabinet's replacement of the one percent barrier with a nonquantitative limit on defense spending for the 1990's makes probable the Japanese acquisition of a defense capability that will severely complicate undetected Soviet air or sea access to the Pacific Basin. Given the advances the United States has already made and future advances in the field of smart weapons, Japan's detection capability will have enormous consequences for regional and global deterrence.²

Nakasone aligned Japan's defense policy more closely with United States security policy, thereby easing the fears of his own countrymen, other Asians and most Americans. Although the Soviets, the Chinese and some Americans maintain that Nakasone went too far too fast and that his friend, United States President Ronald Reagan, was unwise to encourage him to do so, it is undeniable that Nakasone made a difference and that

¹Japan's 1988 Cabinet-approved defense budget is ¥3.7 trillion, in excess of \$30 billion at 123 yen per dollar. The British, French and West German defense budgets were all less than \$30 billion in 1987. If Japan does not become number three in 1988, it will probably reach that status in 1989 or in 1990.

²For a detailed exposition of the strategy of employing precision weaponry, see "Discriminate Deterrence, Report of The Commission on Integrated Long-Term Strategy" (Washington, D.C.: United States Government Printing Office, January, 1988).

Japan is and henceforth will be a factor in Pacific and even in global security.³

The mostly peaceful postwar Pacific of the 1950's and 1960's was dominated by the United States, Japan's principal conqueror, occupier and protector. There was little threat from the Soviet Union's European-oriented military forces. In this environment, Japan moved from the ashes of defeat and occupation to economically prosperous independence without any pressing need to make large expenditures for defense.

Japan had been soundly defeated, virtually brainwashed into believing that its prewar system was evil and that the Japanese military was the root cause of the problem. From a very thorough level of devastation, it had to rebuild a sound economy. Once the occupation ended, Japanese citizens, including women for the first time, had an opportunity to decide through the ballot box whether taxes should be raised to pay for a military force that many Japanese believed was illegal under the constitution. Given this environment, Japan's willingness to "free ride" was logical.⁴

When the United States failed to notify Japan before Henry Kissinger's 1971 visit to China, when the increase in global Soviet military power began to show in Asia in the 1970's, and when the United States reduced its Pacific force levels from their Vietnam highs, the situation

³In 1985, Soviet leaders published a pamphlet entitled "Japan's Military Power" in the style of the United States Defense Intelligence Agency's annual "Soviet Military Power." The Soviet publication claimed that Japan's Ground Self-Defense Force could quickly grow from 155,000 to more than 900,000. Chinese criticism of Japan's defense efforts is a reversal of a very supportive position by Prime Minister Zhou Enlai, which greatly undercut Japanese opposition to the JSDF. Since Japan exceeded one percent of its GNP in 1987, Chinese criticism has become more frequent; however, there is speculation that trade problems are at least part of the reason. Following Japan's decision to exceed one percent of GNP in 1987, former Secretary of State Henry A. Kissinger, in "The Rearming of Japan," *Washington Post*, January 29, 1986, stated that Japan will, in the not too distant future, inevitably become a major military power; he at least implicitly criticized the administration's encouragement of greater Japanese defense efforts.

⁴The Japanese government's 1946 draft of a revised constitution did not alter the status of the military, and the Japanese revised the wording of the first draft prepared by General Douglas MacArthur's headquarters that had been categorical in prohibiting military forces.

⁵The "United States-Japan Guidelines for Defense Cooperation" were signed in 1978, legitimizing joint military planning studies between United States Forces in Japan (USFJ) and the JSDF. The "Guidelines" also called for and resulted in much greater frequency of joint military exercises and intelligence exchanges.

⁶North American Reporting transcript, "Question and Answer Session with Prime Minister Zenko Suzuki," (Washington, D.C.: The National Press Club, May, 1981).

⁷The LDP secretary general under Nakasone's premiership, Shin Kanemaru, told this author frankly that he had done everything in his power to prevent Nakasone's rise to power earlier because he thought Nakasone was unreliable.

began to change; the announcement of a substantial pullout of United States troops from South Korea shocked the Japanese, who sought closer defense discussions with the United States.⁵

The administration of President Jimmy Carter announced that there would be no further reductions in United States Pacific forces. However, President Carter's defense secretary, Harold Brown, noted that because of the Soviet invasion of Afghanistan, "steady and significant increases" in Japan's defense efforts were appropriate. When Japan's 1981 defense spending increase turned out to be several percentage points less than what the United States had hoped for, Secretary Brown uncharacteristically rebuked Japan publicly, calling its lack of action "complacent, unjustified and falling seriously short." He sounded every bit as outraged as the Congress that had been complaining about Japan's free ride for well over a decade.

The next month, the incoming secretary of state, Alexander Haig, stated that the administration of Ronald Reagan would not criticize its allies in public, but would instead pursue frank dialogue in private. On March 4, 1981, Secretary of Defense Caspar Weinberger told the Senate Armed Services Committee that a rational division of labor among Japan, the United States and the North Atlantic Treaty Organization (NATO) allies would be a central thrust of the administration's defense policy.

President Reagan and Prime Minister Zenko Suzuki met in May, 1981, and defense was a major issue. In their joint communiqué, the leaders acknowledged the appropriateness of a rational division of labor in defense. The United States welcomed and later embellished Suzuki's press conference statement the next day that Japan could, "within the framework of the Constitution," protect its sea-lanes of communication (SLOC) to 1,000 miles and would do so as national policy.⁶ But a subsequent Suzuki statement denied that he had implied a military "alliance" between the United States and Japan; his denial led many American and Japanese observers to miss the significance of the joint communiqué with respect to the precedent-shattering authorization of a division of defense roles. Many Americans believed the Japanese were practicing their skill at promising a lot but producing very little.

Japan's Ministry of Foreign Affairs (MOFA), which had written the Japanese draft of the 1981 joint communiqué, and Prime Minister Suzuki's successor clearly understood the communiqué's implications.

Yasuhiro Nakasone had been known as a nationalist and was sometimes rumored to be pro-Soviet and anti-American during and before his tenure as minister of state for defense in 1970. He had also been labeled an opportunist or "weather vane" in Japanese politics and had long been denied his wish to lead the Liberal Democratic party (LDP), despite his status as the leader of one of the main factions.⁷

Kakuei Tanaka's support allowed Nakasone to win the party leadership after Prime Minister Suzuki decided not to seek a second two-year term in 1982. The new Japanese leader clearly understood the meaning of the 1981 communiqué and stressed the strengthening of bilateral ties.

During his January, 1983, visit to Washington, Nakasone surprised some of his countrymen by stating that the United States and Japan shared a "common destiny." In a meeting with *Washington Post* reporters, he incurred Soviet wrath but won notice from Americans with his comment that the Japanese archipelago constituted an "unsinkable aircraft carrier."⁸

Four months later, at the Williamsburg Summit, the Japanese leader conferred with West German Chancellor Helmut Kohl regarding Pershing II missile deployments and with British Prime Minister Margaret Thatcher on INF (Intermediate Nuclear Force) negotiations. The Japanese public and foreign experts on Japan were surprised to see Japan sign the joint communiqué at Williamsburg, which opened with the statement that

It is our first duty to defend freedom and justice on which our democracies are based. To this end, we shall maintain sufficient military strength to deter any attack, to counter any threat and ensure the peace.⁹

Some Japanese believed Prime Minister Nakasone had abandoned individual self-defense for collective security and was advocating Japan's membership in NATO. He had not gone that far, but it was obvious there had been a change in rhetoric, if not in policy.

It was not only in Tokyo that change was occurring. The United States had a poor record in Asian policy. When Asia did receive American attention, it had usually centered on the issue of China. But the Reagan administration's Asian policy looked at Asia as a whole, saw China primarily as a part of Asia (and only secondarily as a counterweight to the Soviet Union) and shifted its focus in Asia to Japan, already a global economic power and a dynamic democracy.¹⁰

In March, 1982, Secretary Caspar Weinberger spoke in Tokyo to both Japanese and Americans on Japan's strategic importance if it met the 1981 defense goals of territorial, air and sea-lane defense to 1,000 miles within the decade. To obtain the defense capability necessary to

⁸Some Japanese interpreted "common destiny" to imply the notion of Japanese and Americans falling together in battle. The transcript of the *Washington Post's* tape confirmed that the Prime Minister had actually said "large" aircraft carrier, and the interpreter had mistranslated, recalling a popular book called *Unsinkable Aircraft Carrier*. Nakasone said that he recognized the mistranslation but decided to let it stand.

⁹Statement at Williamsburg of Seven Summit Countries, May 29, 1983.

¹⁰Richard Nations, "A Tilt towards Tokyo," *Far Eastern Economic Review*, April 23, 1983, p. 36.

¹¹The MTDE's employed a so-called "rolling" system whereby in the third year of one MTDE, planning for a new MTDE was completed, and the new MTDE went into effect in what would have been the fourth year of the old plan.

carry out these Japanese defense goals was a difficult task, even for the enthusiastic Nakasone. Despite a diminution in Japan's aversion to anything military after almost 40 years, pacifism is still respectable in Japan. The major opposition, the Japan Socialist party (JSP) and the Japan Communist party (JCP), paint themselves as the guardians of the constitution and have long used defense as a major political issue.

The defense spending limit that effectively prevented sufficient expenditures to acquire requisite capability, even for self-defense, was so publicly popular that no Prime Minister had called for its abolition. In his defense budgets for 1983-1985, Prime Minister Nakasone kept average defense spending in excess of five percent of Japan's annual real growth—but still under one percent of GNP—while he cut most other government spending. Even publicly popular ministries like welfare, education and public works, which had usually grown faster than defense, were maintained at close to zero nominal and negative real growth.

In 1985, the Japan Defense Agency (JDA) completed planning its Mid-Term Defense Estimate (MTDE) for the period 1986-1990. This MTDE proposed significant improvements for the three branches of the Japan Self-Defense Forces. There had been two previous MTDE's, for 1980-1984 and for 1983-1987, but neither had been designed to require expenditures greater than one percent of GNP.¹¹ In addition, the annual budgets, which had to be approved by the Diet and, more important, by the powerful Ministry of Finance (MOF), achieved an average of only a 60 percent fill rate of the defense items called for by the MTDE's.

The 1986-1990 MTDE includes weapons that extend Japan's defense capability further offshore in accordance with Nakasone's concept of an ocean defense of the archipelago. It also considerably increases spending for support items like missiles, torpedoes and other kinds of ammunition, which had been a critical weakness of the JSDF structure.

To extend the air defense capability around the Japanese main islands, the 1986-1990 MTDE calls for:

- increasing the number of modern front-line F-15 fighter interceptors, the most modern aircraft flown by the United States Air Force, to 200;
- modernizing the approximately 100 F-4 Phantom interceptors, thus providing Japan with a total of 300 capable, tactical fighters (200 F-15's plus 100 F-4's), about the number the United States Air Force has defending the continental United States;
- research on the acquisition of 100 state-of-the-art air-to-surface support fighters to use in the 1990's over the sea against invasion;
- research on the acquisition of tanker aircraft to increase the effectiveness of the 400 interceptors and air-to-surface fighters Japan will have in the 1990's;
- replacement of the surface-to-air Nike-J missiles with the United States Army's modern Patriot system;
- research on an extremely long-range Over-the-Horizon Radar (OTHR) system capable of early detection of air-

craft operating in a broad area of Soviet Far Eastern air space; and

- acquisition of additional short-range, early-warning aircraft capable of detecting low-flying aircraft like the Soviet MiG-25, which landed in Hokkaido without detection in 1976.

Sea defense, including the protection of SLOC, is to be extended by:

- increasing the number of destroyer-type surface ships from 50 to 60, almost three times as many as in the United States Seventh Fleet, which has responsibilities for the entire western Pacific and Indian Oceans;
- acquiring two guided missile destroyer-type ships with the United States Navy's state-of-the-art Aegis air defense system;
- doubling the number of modern United States Navy P-3C antisubmarine warfare (ASW) aircraft, bringing the total to 100, about four times as many as the United States has in the Seventh Fleet.

The ability to counter an invasion, the principal responsibility of the Ground SDF, is also to be strengthened with the acquisition of new domestically designed tanks, the latest United States Army antitank helicopters and other associated equipment. But even in countering a potential territorial invasion, the realistic deterrent has been added by redeploying frontline ground units and concentrating ammunition for GSDF units in Hokkaido and by extending the punch of the GSDF by acquiring the capability to destroy invading forces at sea with surface-to-surface missiles (SSM), the domestically designed SSM-1.¹²

The 1986-1990 MTDE's are impressive; and it is instructive to view them in the context of the way in which the Soviet Union almost certainly views Japan geographically. A line drawn due west from the northernmost tip of Hokkaido intersects the east coast of the Soviet Union at a point 300 miles north of the key Soviet naval port of

¹²Details of the 1986-1990 MTDE are contained in Japan Defense Agency, "The Mid-Term Defense Program (FY 1986-1990)," *Defense Bulletin*, published by the JDA, vol. 9, no. 1 (September, 1985).

¹³Casper W. Weinberger, "Allied Contributions to the Common Defense, A Report to United States Congress," March, 1986, and March, 1987. The March, 1988, report in draft continues the same evaluation.

¹⁴It is not certain that research projects will be included in the following five-year defense plan, but in Japan probabilities are high that research projects will be carried to fruition.

¹⁵"Discriminate Deterrence, Report of the Commission on Integrated Long-Term Strategy."

¹⁶Contrary to reports occasionally seen in the United States and elsewhere outside Japan, the budget had exceeded one percent in the past and did not fall below one percent for the first time until 1967. Defense spending had actually increased every year in JDA's history, but the percentage of GNP fell during Japan's years of double-digit GNP growth in the 1960's and 1970's.

¹⁷In effect, the 1985 decision was a reversion to the system that prevailed from 1958 to 1976 under the so-called Defense Buildup Programs (DBP's). That system had been abandoned when inflation resulting from rising oil prices wreaked havoc with the fourth DBP for 1972-1976.

Vladivostok. A similar line drawn west from the southernmost point of Okinawa Prefecture touches Taiwan (see map, inside back cover).

At the direction of the United States Congress, the Defense Department is required to provide an annual evaluation of Japan's defense plan for 1986-1990. The first three evaluations stated that if the plan continues on the path toward full funding, Japan will meet the minimum level required to meet its defense goals and, if the research parts of the program are carried on to fruition in the 1990's, Japan's capability will become even more adequate.¹³

Simply put, acquisition of and the ability to sustain the type of high-technology air-defense, ASW and anti-invasion network envisioned by the acquisitions and research projects contained in the 1986-1990 MTDE will (particularly if the research items are brought to fruition in the next defense program) almost certainly give Japan the ability to prevent undetected Soviet access to the Pacific.¹⁴ In view of the increasing capability of smart weapons possessed by the United States, Japanese ability to provide real-time, accurate locating information on the movement of Soviet Far Eastern forces has an enormous potential impact on Pacific deterrence.¹⁵ The Soviet Union must prioritize its military efforts, giving priority to Europe and to the disputed border with China. Should Soviet leaders show their characteristic caution by not becoming engaged in an area like the Pacific theater (their third priority), which carries considerable risk, United States flexibility in other regions would be strengthened. Indirectly, therefore, a deterrent Pacific theater based on a high-technology Japanese self-defense detection system could have global effects.

Based on the track record of its predecessors, however, the 1986-1990 MTDE had no guarantee of full funding, particularly since the Japanese estimated that it would require an average annual defense expenditure in excess of one percent of GNP. In September, 1985, Prime Minister Nakasone tried and failed to gain the support of the LDP and his Cabinet to change the 1976 policy decision of the Cabinet (then led by Prime Minister Takeo Miki) that limited defense spending to one percent of GNP "for the time being."¹⁶

Nakasone failed despite the recommendations of an ad hoc commission on national security (which he had appointed to look at national security policy) and a defense subcommittee of the LDP.¹⁷ The Prime Minister's rivals argued that, since the first year of the new plan could be

(Continued on page 180)

James E. Auer will become the director of the Center for United States-Japanese Studies and Cooperation at the Institute for Public Policy Studies, Vanderbilt University, in mid-1988. His doctoral thesis, *The Postwar Rearmament of Japanese Maritime Forces 1945-1971*, was published in English in 1973 by Praeger Publishers and in Japanese by the Jiji Press.

"The Japanese and American governments have it in their power to manage their economic differences effectively while promoting an international political order that is in the interests of the global democracies."

United States-Japanese Relations

BY MICHAEL NACHT

Professor of Public Affairs, University of Maryland

It is increasingly fashionable to argue that we are on the edge of a fundamental confrontation in United States-Japanese relations, a confrontation stimulated by an intense economic competition whose outcome could well determine the global balance of power as the twenty-first century begins. What are the bases for these projections? Is such a confrontation inevitable?

Some students of international history see the United States as a superpower in decline. Having emerged from World War II as the supreme economic and military power, the United States has slipped significantly in stature. In economic terms, as recently as 1960, the United States claimed 33 percent of the world's gross national product (GNP). Yet by 1980, its share had slipped to 22 percent and some critics projected that the United States share would slip below 20 percent in the 1990's.¹ In military terms, the vast United States nuclear arsenal is seen as largely unusable. And in important regional conflicts (e.g., Southeast Asia, the Persian Gulf and Lebanon), United States conventional military forces have proved ineffective against less well-armed but politically more determined adversaries.

One noted historian, Professor Paul Kennedy of Yale University, makes a striking connection between these economic and military trends. He argues that the current international position of the United States at the end of the twentieth century is similar to Spain's position at the end of the sixteenth century and Britain's position at the end of the nineteenth century: namely, one of "imperial overstretch."² Kennedy sees a United States whose interests and commitments cannot be adequately defended with its existing resources and capabilities. As the world shifts from a bipolarity dominated by the United States and the Soviet Union to a multipolarity with five power clusters—the United States, the Soviet Union, China, Japan and the European Economic Community (EEC)—the United States, according to Kennedy, must

¹*Japan 1987: An International Comparison* (Tokyo: Keizai Koho Center, 1987), p. 9.

²Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987).

³For these arguments see Ronald A. Morse, "Japan's Drive to Pre-Eminence," *Foreign Policy*, no. 69 (1987-1988), and George R. Packard, "The Coming U.S.-Japan Crisis," *Foreign Affairs*, vol. 66, no. 2 (1987-1988).

reduce its international commitments and set its domestic economic house in order to adapt to this position of relative decline.

The Japanese, on the other hand, are moving in exactly the opposite direction. Japan held 3 percent of the world's share of GNP in 1960. Japan's share rose to 10 percent in 1980 and could reach 15 percent or more by the turn of the century. Japan achieved this extraordinary economic growth while it carried a defense burden of just one percent of its gross national product, by far the lightest military burden of all the major powers. True to its constitutional constraints, Japan has been cautious with respect to geopolitical commitments and has not deployed any military forces that can project Japanese power far from the home islands. Japan is clearly the world's second greatest economic power and is positioning itself to challenge the United States for first place.

Some students of international affairs view these trends with great alarm. They note that historically no nation has attained such enormous economic strength and global economic reach without ultimately flexing its military muscles. The logic is simple: economic power begets economic and then political interests that ultimately require the protection of military force. The re-emergence of Japan as a military and economic power of the first rank is bound to lead to a major confrontation with the United States.

Some students of Japan see a different problem. They note a Japanese drive for economic preeminence that will continue to exacerbate the bilateral United States-Japanese economic relationship. The inevitable consequence of economic strains is the "Japan-bashing" already evident in Congress and championed by some 1988 presidential candidates in the United States. These nationalist reactions in Washington might well produce protectionist trade legislation that in turn might stimulate deep anti-American sentiment in Japan and might trigger a major debate about Japan's reliance on United States security guarantees.³

Given Japan's determination to challenge the United States for world leadership across the broad array of high technologies and the inability of the United States to fashion coherent economic and organizational policies to meet this challenge, confrontation is seen as virtually in-

evitable. Although observers are divided about the ultimate consequences of this confrontation, many are increasingly persuaded that it cannot be avoided.

However, it is possible to identify a number of economic, historical, domestic political, strategic and cultural considerations that tend to mitigate these projections.

ECONOMIC CONSIDERATIONS

A look at the economic realities of the United States-Japanese relationship reveals an extraordinary degree of interdependence between the two nations. In 1986, for example, Japan exported in excess of \$80-billion worth of goods to the United States. This accounted for 38.5 percent of its total exports, an increase from 35.2 percent in 1984. The EEC was second with almost \$31 billion in goods, or 14.7 percent of Japanese exports. No other nation or community of nations accounted for more than 5 percent of Japanese exports.

It can be argued that major development of the Chinese and Soviet economies could provide the Japanese with huge export markets that could partially offset a decline in exports to the United States. This seems highly unlikely. Indeed, Japanese exports to China actually declined from 7.1 percent to 4.7 percent between 1985 and 1986. More important, an examination of Japanese exports by commodity indicates that manufactured goods account for more than 95 percent of Japanese exports, of which 75 percent are made up of machinery and equipment. Within this category, the principal contributors are motor vehicles, scientific and optical equipment, video cassette recorders, vessels of various types, and television and radio receivers. In short, Japan's export strategy has been geared toward automobiles and high-technology items.

It would probably take several decades of major economic development and a complete restructuring of Chinese and Soviet trade policies before either state could serve as a suitable replacement for the United States. Moreover, given the economic interconnections between the EEC and the United States, it is unlikely that the EEC could expand its acceptance of Japanese goods to a level that would compensate for the loss of United States markets. Therefore, for the next several decades, if their economy remains export-oriented, the Japanese will be heavily reliant on the United States markets for their own economic well-being.

On the import side, there is also a significant degree of dependence. In 1986, Japan imported more than \$29-billion worth of goods from the United States, about 23 percent of total Japanese imports and more than double the level imported from all the EEC countries. The principal Japanese imports are foodstuffs, petroleum and other mineral fuels, and machinery and equipment. Although these goods are available from a variety of

⁴See James Abegglen, "Black Monday's Bottom Line—Japan is No. 1," *The International Economy*, vol. 2, no. 1 (1988).

sources, the Japanese are especially aware of the need to "buy American" because of their own dependence on exports to the United States and because there is substantial demand among Japanese consumers for American products.

Clearly, there are serious difficulties in improving the balance of trade between the two nations. The Japanese government remains sensitive to powerful groups in Japanese politics (the agricultural community, for example), and has been slow to respond to American pressure to lift non-tariff trade barriers. Moreover, the consensus-building process that marks Japanese policymaking is laborious, and sometimes it moves so slowly that it appears to be standing still. Nonetheless, the Japanese response to American concerns is motivated by self-interest and by a maturation of Japan's role in the world economy.

There are several recent examples of this movement toward a global role. When Prime Minister Noboru Takeshita visited Washington, D.C., in January, 1988, he made it clear that Japan is trying to implement the recommendations of the Maekawa Report. This report called for the strong stimulation of Japanese domestic demand, in part by an increase in the importing of manufactured goods and a liberalization of financial and capital markets. Important aspects of this approach, agreed to at the Washington summit, were the deregulation of domestic interest rates and arrangements to stabilize the dollar-yen exchange rate. Prime Minister Takeshita predicted that, in consequence, Japan would be able to reduce its \$82-billion trade surplus by \$10 billion in 1988. Although this reduction of the imbalance was seen as insufficient by United States officials, it is clearly a step in the right direction.

The stock market collapse of October 19, 1987, was also a painful reminder of the interdependence of the world economy and the deleterious effects on Japan of a decline in American economic health. Although of all the major financial markets the Japanese best maintained the value of their stocks (and this is seen by one seasoned observer as evidence that Japan has the world's strongest economy), the prevalent Japanese reaction was that this revealed Japan's dependence on global economic conditions.⁴

Finally, it should be noted that there is nothing inevitable about the economic decline of the United States. Only a few years ago, during Jimmy Carter's presidency, pundits claimed that high inflation was a structural fact of the United States economy. But tough monetary policies by the Federal Reserve Board and an unexpected softening of international oil markets drastically altered this "inevitability." A recovery of United States manufacturing competitiveness and more investment in research and development for high technology are both within reach of the United States and would go a long way toward reducing the budget deficit and lessening trade frictions with the Japanese.

The case has also been made that the generation of

Japanese beholden to the United States for establishing a postwar democratic society and permitting the Japanese economy to flourish is passing from the political scene and that the older generation is being replaced by younger Japanese who have little sense of commitment toward the United States. There is certainly truth in this observation. However, equally important is the Japanese sense of history. According to a Japanese perspective, life has never been so prosperous; the Japanese believe that the reason for this prosperity is their conscious policy decision to concentrate on economic well-being and to avoid the political and military confrontations that could lead to national disaster. In short, the stake of Japanese decision-makers in the current system is high and is reinforced by historical and psychological perspectives that remain potent forces in Japanese politics.

An additional concern is the experience that led to Japan's entry into World War II. Both Japanese and Americans are well aware of the circumstances that produced Pearl Harbor. This momentous event remains a benchmark for how not to conduct bilateral relations. Although they are decades removed from this experience, senior officials in Tokyo and Washington know well that economic frictions if handled badly can lead to major political ruptures. Thus, there is now in place a mutual commitment on both sides of the Pacific to manage economic differences so that the frictions, no matter how severe, do not have drastic political repercussions.

DOMESTIC POLITICAL CONSIDERATIONS

Of all the brakes holding back a major confrontation between the two powers, none is more powerful than the Japanese system of democratic government. This system, designed by the United States and codified by a constitution written by Americans after World War II, is mystifying to many in the United States, but it has produced extraordinary stability and prosperity for the Japanese. The system is symbolized by Prime Minister Noboru Takeshita, who has devoted his professional life to the processes of consensus-building within the Liberal Democratic party (LDP). The Prime Minister takes few initiatives, maintains a low public profile and tends to be conciliatory rather than confrontational with constituencies both at home and abroad.

Unlike former Prime Minister Yasuhiro Nakasone, who was outspoken and glamorous in a way that Americans could easily relate to, Prime Minister Takeshita more nearly represents the norm in Japanese politics. He and his senior LDP colleagues are well aware of what is at stake in relations with the United States and they will dedicate themselves to moderating tensions in the bilateral relationship. Although there are ultranationalist groups in Japanese politics who wish to see a far more

assertive Japanese foreign and defense policy and a distancing from the United States, these groups have not played a significant role in politics since the war.

It should also be noted that Japan-bashing in the United States can be overrated. In the 1984 presidential campaign, it was former Vice President Walter Mondale who threatened protectionist legislation, perhaps as much to gain electoral support from the United States trade union movement as to influence trade relations with Japan. But by and large his arguments fell on deaf ears and were never a significant factor in the presidential campaign. In the 1988 race, Congressman Richard Gephardt (D., Mo.) is the principal supporter of such legislation. Although Congressman Gephardt appears to have strong support in the midwest and in areas hard hit economically that can trace their woes to the influx of Japanese exports, his position, while favorably received in some early primaries, has not yet attracted widespread support. Most Americans are well aware that many of their economic problems are of their own doing and cannot be eliminated merely by taking a swipe at Japanese and South Korean imports. Indeed, the net effect of the stock market crash may well be a return to a more cautious pattern of American economic consumption and savings that may produce a firmer economic foundation. In American domestic politics, therefore, macroeconomic conditions and a coalition of liberal Democrats and conservative Republicans may forestall the enactment of serious protectionist legislation as long as the Japanese are perceived to be making a good faith effort to liberalize their own trading posture.

The short political life of the Toshiba scandal and concern over semiconductor dependency are testimony to the limited staying power of economic protectionism in American domestic politics when the United States economy is reasonably healthy.⁵

STRATEGIC CONSIDERATIONS

One of the earmarks of the United States-Japanese relationship is the conduct of parallel debates on economic policy and on security policy, with negligible overlap. Bankers, economists and experts from the United States Treasury and the Department of Commerce engage in seemingly endless discussions on nontariff trade barriers, the GATT (General Agreement on Tariffs and Trade) and countless other issues in macroeconomic policy, with scant attention to the military side of the United States-Japanese equation. Similarly, a smaller number of defense experts assess Japan's ability to protect the SLOC (Sea Lanes of Communication), call for enhanced Japanese antisubmarine warfare (ASW) capabilities and consider the likelihood of a Soviet attack on Hokkaido without much concern for the economic issues that are central to the bilateral relationship.

However, while economic frictions between Tokyo and Washington have recently been sharp, the security relationship has never been stronger. The Japanese have

⁵For a thorough discussion of the semiconductor issue, see *Report of Defense Science Board Task Force on Defense Semiconductor Dependency* (Washington, D.C.: Department of Defense, February, 1987).

crept past the one-percent- (of GNP) for-defense barrier that was long thought to be impenetrable. They are attracting somewhat better recruits to the Self-Defense Forces. There is strong public support for the maintenance of these forces (in excess of 80 percent in some public opinion polls). And the Japanese continue to increase their "offset payments" to cover the costs of American forces stationed in Japan. Whereas in the 1960's the maintenance of these forces was a major political issue, it has now disappeared from Japanese domestic politics. In the wake of the humiliating United States defeat in Vietnam in 1975, many Japanese thought the United States was withdrawing from Asia. Now, few Japanese share this concern. In short, the bilateral security relationship has flourished.

In the larger strategic context, a number of factors argue against a major breakdown in the United States-Japanese relationship. First, the emergence of new policies under Soviet General Secretary Mikhail Gorbachev has not yet produced major rewards for the Japanese. Foremost among Tokyo's objectives is the return of the four islands in the Kuril chain north of Hokkaido. When Soviet Foreign Minister Eduard Shevardnadze visited Tokyo in January, 1986, it was hoped that his visit would open the way toward a negotiation for the return of perhaps two if not four islands. Nothing tangible has materialized, although Gorbachev promises to be more attentive to Asia and perhaps more flexible than his immediate predecessors.

The recently completed United States-Soviet Treaty on Intermediate Nuclear Forces (INF) is a step in the right direction from the Japanese perspective because it promises to eliminate a whole class of weapons—the Soviet SS-20's—that could easily reach all significant targets on the Japanese homeland. The ratification of the INF agreement could call into question the credibility of the United States security guarantees to Japan, but this seems unlikely. Rather, it will turn Japanese and American attention to the conventional force balance in northeast Asia much as it has begun to stimulate such debate in Europe. A marginal reduction of the Soviet threat as seen by the Japanese—which would be substantially effected by a strategic arms reduction agreement between the superpowers and by the withdrawal of Soviet combat forces from Afghanistan—is not likely drastically to undermine Japanese or American support for United States-Japanese defense cooperation.

Support in Japan for the buildup of major naval and other power projection forces or for the deployment of a sea-based nuclear deterrent remains slender. This is explained in part by the "nuclear allergy" that is still very potent in Japan. Japan is the only nation that has experienced nuclear war first-hand; thus, the consensus in Japan is to avoid policies that could lead to a repetition of that disaster.

There are individuals in the Foreign Ministry, the Defense Agency, the Diet and the business community who

have long called for an indigenous Japanese strategy not predicated on United States forces and security guarantees. Ironically, these groups are often stimulated by hard-line Americans who are fearful that without a strengthened Japanese military capability, the Soviet Union will adopt aggressive policies toward Japan. But support for such initiatives remains small in the ruling LDP and among the public at large. It would take a major shock, tantamount to the complete shutdown of American markets to Japanese goods or a threatened Soviet invasion of Hokkaido, to alter mainstream political views.

Similarly, with respect to the People's Republic of China, the Japanese have relatively positive views even in the face of bilateral frictions between the governments. In recent Japanese public opinion polls, China has replaced the United States as the "most friendly nation." In strategic terms, China is not seen as a threat to Japan; for the most part the Japanese believe that no nation currently poses a direct threat to Japan's survival. If relations between the United States and the Soviet Union continue to improve and a thaw develops between the U.S.S.R. and China, it will be difficult to mount a credible argument in Tokyo to strike a military course independent of the United States.

Even in the Persian Gulf, the Japanese have been pleased by the multilateral involvement of United States, British, French and Italian warships designed to protect oil tankers as they traverse the Gulf. Only a few lonely voices in Tokyo and Washington would like to see Japanese warships added to this armada.

There is no doubt that as one peers into the future, Japan is extremely well positioned to become a major military power. It is plausible to argue that the twenty-first century will be marked by military capabilities that utilize not only nuclear weapons but directed energy weapons (laser and particle beams), extraordinary information-processing capabilities and space-based platforms. Japan has the technological ability to mount impressive capabilities in each of these areas. Its sophisticated nuclear power community could easily turn to nuclear weapons production.

Japan's expert community in theoretical and applied physics stands at the frontier of knowledge on lasers, robotics and other state-of-the-art technologies. And in the space field, the National Space Development Agency (NASDA) has already mounted an impressive program

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“ . . . in view of the complementary nature of the Japanese and Chinese economies, China's continuing need for Japanese capital and technology . . . and their shared interest in containing Soviet influence in Asia, Japan and China are expected to resolve their differences and continue to strengthen their friendly relations.”

Sino-Japanese Relations

BY HONG N. KIM

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SINCE the signing of the Sino-Japanese Treaty of Peace and Friendship in 1978, political and economic ties have become much closer: Japan is currently China's second largest trading partner, a principal provider of financial and technical assistance, and a major market for China's energy and labor-intensive exports. Politically, there has been close cooperation between Tokyo and Beijing. Top political leaders of both countries have visited each others' capitals to promote friendly relations: China's leaders Deng Xiaoping (1978, 1979), Hua Guofeng (1980), Zhao Ziyang (1982) and Hu Yaobang (1983) visited Tokyo, and their visits were reciprocated by Japanese Prime Ministers Masayoshi Ohira (1978), Zenko Suzuki (1982), and Yasuhiro Nakasone (1984, 1986) who traveled to Beijing. Furthermore, in order to discuss problems of common interest, annual bilateral ministerial meetings have been held alternately in Tokyo and Beijing since 1982. The fifth meeting was held in Beijing in June, 1987.

The warming of relations between the two countries can be attributed to several factors: Japan's willingness to provide substantial economic assistance to China; the complementary nature of the two economies; and the common interest in coping with the Soviet military buildup in Asia.¹

Starting in 1985, however, Japan and China have experienced growing difficulties in dealing with some difficult bilateral issues. Three categories of problems have troubled Sino-Japanese relations: the alleged “revival of Japanese militarism”; Japan's existing ties with Taiwan; and a bilateral trade imbalance.

The inauguration of the new Japanese government headed by Prime Minister Yasuhiro Nakasone in November, 1982, aroused some uneasiness on the part of the Chinese leaders, because Nakasone's hawkish views on foreign and defense policies were generally well known. In the aftermath of Nakasone's visits to Seoul and Washington in January, 1983, China indicated its

displeasure at Nakasone's foreign policy, charging in part that his visits were designed to strengthen the military alliance among Japan, South Korea and the United States.

In a move to improve Tokyo-Beijing relations, Prime Minister Nakasone dispatched his party's secretary general, Susumu Nikaido, as a special envoy to Beijing in February, 1983. In his talks with Chinese leaders, Nikaido stressed the fact that the Nakasone government's defense policy was no different from its predecessors and that his government was as friendly toward China as earlier administrations had been. Chinese leaders advised Nikaido, however, that Japan should exercise “moderation” lest its military buildup arouse uneasiness among Asian countries.

By the spring of 1983, it had become increasingly clear that the Nakasone government would pursue a policy of close cooperation with China, for “keeping China on the side of Western powers would serve the common interest of the West as a whole.”² Japan did not want to see the re-emergence of a Sino-Soviet bloc that would threaten its security. Furthermore, Japan shared a common strategic interest with China in containing Soviet power and influence in East Asia. As long as Japan and China perceived the Soviet military buildup as the greatest threat to their security, Japanese leaders believed it prudent for Tokyo and Beijing to cooperate for common security interests.

To ensure the development of friendly relations, Nakasone agreed to establish a “Sino-Japanese Friendship Committee for the 21st Century” and to follow four basic principles governing Sino-Japanese relations: peace and friendship; equality and mutual benefit; long-term stability; and mutual trust. Agreements to this effect were made between Prime Minister Nakasone and Hu Yaobang, General Secretary of the Chinese Communist party (CCP), who visited Japan in November, 1983.

In a related move, the Japanese government began to draft a new economic aid package for China. The outline of the package was delivered by Prime Minister Nakasone during his four-day visit to China beginning on March 23, 1984. In his talks with Prime Minister Zhao, Nakasone promised to provide China with a

¹For a detailed analysis, see Hong N. Kim, “Japan's China Policy Since the Peace Treaty of 1978,” *Asia Pacific Community*, no. 25 (Summer, 1984), pp. 58-81. See also Hong N. Kim, “Japan and China in the 1980's,” *Current History*, December, 1985, pp. 426-428.

²*Asahi Shimbun*, November 21, 1983.

package totaling ¥470 billion (\$2.1 billion) in official development loans to help finance seven key industrial projects proposed by China between 1984 and 1990. Nakasone also promised to offer additional Export-Import Bank of Japan credits to China for the development of petroleum and coal resources.

Deng Xiaoping told Nakasone that China was not expecting any breakthrough in Sino-Soviet negotiations, because Moscow had failed to make meaningful concessions to the three specific conditions laid down by China for the normalization of Sino-Soviet relations (i.e., Soviet withdrawal from Afghanistan, termination of Soviet support for Vietnam's occupation of Cambodia (Kampuchea), and the reduction of Soviet troops along Sino-Soviet borders). As for Sino-Japanese economic cooperation, Deng expressed Beijing's wish for active Japanese participation in China's industrial development. When Nakasone responded that China should create an environment conducive to foreign investment in China, Deng indicated China's willingness to adopt the necessary measures to protect foreign investors.

After Nakasone's visit to Beijing, many Japanese felt the relationship between Japan and China was better than ever before. However, the euphoric mood was dashed by the summer of 1985, when Chinese students staged anti-Japanese demonstrations in Beijing, Xian, Chengdu and other urban centers in protest against Japan's "economic invasion" and against Prime Minister Nakasone's official visit to the Yasukuni Shrine on August 15, 1985. Nakasone's unprecedented official visit to the shrine, which honors the memory of the more than 2.4 million Japanese war dead including General Hideki Tojo, angered not only Chinese officials but also the students, who regarded it as a move designed to revive militarism in Japan.

At the Sino-Japanese foreign minister's conference in Beijing in October, 1985, Chinese leaders urged the visiting Japanese to understand "the sentiments of the Chinese people" and not to aggravate the situation.³ In an apparent move to placate the Chinese, Prime Minister Nakasone canceled a second scheduled visit to the Yasukuni Shrine. Furthermore, in October, 1985, he reassured Chinese Prime Minister Zhao at the United Nations that Japan would strengthen Sino-Japanese ties on the basis of the Sino-Japanese peace treaty and other bilateral agreements.

In the summer of 1986, Sino-Japanese relations were further strained by a controversy over a new Japanese high school textbook edited by a right-wing group. Beijing publicly criticized the book, which "hurts the sen-

³Asahi Shimbun, October 11, 1985.

⁴Bruce Roscoe, "Grappling with History," *Far Eastern Economic Review* (hereafter cited as *FEER*), June 26, 1986, pp. 12-13. See also Robert Delfe and Paul Ensor, "Watchdog Neighbors," *ibid.*, pp. 12-13.

⁵Hua Xin, "Defense Budget Stirs Controversy," *Beijing Review*, January 19, 1987, p. 12.

timents of the Chinese people" by "beautifying the wars of aggression" waged by Japan in the pre-1945 period.⁴ Eventually, some 800 revisions were made in the textbook to comply with government guidelines. Despite the changes, Chinese resentment persisted because Japanese Education Minister Masayuki Fujio made controversial remarks in defense of the atrocities committed by Japan against the Chinese in the Sino-Japanese war (1937-1945). Although Nakasone dismissed Fujio from his Cabinet in September, 1986, a bitter aftertaste lingered.

Against the backdrop of strained Sino-Japanese relations, Prime Minister Nakasone visited Beijing on November 8-9, 1986, to attend the ceremony for laying cornerstones for the Sino-Japanese Youth Exchange Center, which was to be built with funds provided by Japan (¥10.1 billion). In his talks with Chinese leaders, Nakasone reaffirmed his government's adherence to the Sino-Japanese joint communiqué of 1972, the peace treaty of 1978 and the four basic principles agreed on in 1983, pledging to develop stable bilateral relations on a long-term basis. Nakasone also promised to study ways to rectify the trade imbalance between Japan and China.

On relations with the Soviet Union, each nation reassured the other that no surprises were in store. On the Korean question, Nakasone secured a Chinese promise to cooperate for the resumption of North Korean-South Korean talks, but he failed to persuade China to take part in four-power talks on Korea with the United States and the two Koreas.

Returning from China, Nakasone instructed Japanese officials to study measures to increase the importation of Chinese products. However, such a friendly gesture toward China did not bring about any noticeable improvement in Sino-Japanese relations. Rather, Tokyo-Beijing relations were to experience new strains as other controversial issues surfaced in the spring of 1987.

Toward the end of December, 1986, the Nakasone government decided to increase its defense budget by 5.2 percent, allocating ¥3.517 billion (\$22 billion) for defense expenditures for fiscal year 1987. The new defense budget, representing 1.004 percent of Japan's gross national product (GNP), surpassed the 1 percent ceiling on defense that had been regarded as an important principle of Japanese defense policy since its adoption in 1976. Reactions to the new defense budget from major Japanese opposition parties were generally unfavorable.

On January 2, 1987, a spokesman for Beijing said that "there has to be a limit to the growth of Japanese defense forces, which should not exceed [Japan's] defense needs and make its neighbors feel uneasy."⁵ On January 13, 1987, Chinese concern was voiced again by de facto leader Deng Xiaoping in a meeting with Noboru Take-shita, secretary general of the ruling Liberal Democratic party (LDP). Deng decided that the abandonment of the defense spending ceiling was "troublesome" to the Chi-

nese people, and that China "hopes the Japanese government will exercise caution over the matter."⁶ Takeshita's response was that Japan "will maintain its purely defensive security policy and will never pose a threat to neighboring countries."

TAIWAN

Although Beijing agreed to allow Japan's nonofficial economic and cultural relations with Taiwan to continue even after the severance of Tokyo-Taipei diplomatic ties in September, 1972, Taiwan has remained as a potential source of irritation in Sino-Japanese relations. Beijing is extremely sensitive about any move on the part of Japan that could be construed as violating the principle of "one China"; that is, that Beijing is the only legitimate government of China and Taiwan is part of China. Japan agreed to subscribe to the principle of "one China" at the time of the normalization of Sino-Japanese relations.

Although Tokyo severed its diplomatic ties with Taipei in 1972, Japanese-Taiwanese relations continued to flourish. The bilateral trade amounted to over \$9 billion in 1985. Particularly disturbing to Beijing was the fact that the Japanese investment in Taiwan (over \$1 billion in 1985) was substantially more than Japanese investment in China (\$356 million in 1985). In 1986, Japanese firms invested more than \$253 million in Taiwan.⁷ This development clearly irritated Beijing.

In September, 1986, 130 members of Japan's Diet attended a memorial meeting to commemorate the centennial of the late Generalissimo Chiang Kai-shek's birth. It was organized by prominent elder statesmen of the ruling Liberal Democratic party (LDP), including former Prime Minister Nobusuke Kishi. Several members of the Nakasone Cabinet also attended dinner parties before and after the memorial, which Beijing had failed to persuade Tokyo to cancel. China's official Xinhua news agency charged that the memorial was "tantamount to support for the creation of two Chinas," despite Japan's explanation that the event was a private affair.⁸

A more serious strain on Sino-Japanese relations occurred in the spring of 1987 when the Osaka High Court ruled in favor of the "Republic of China" (Taiwan) in a case involving the disputed ownership of the Kokaryo, a Chinese student dormitory located in Kyoto and claimed by both Beijing and Taipei. In the ruling, the Japanese

court declared that the Kokaryo was not a diplomatic or consular property and its ownership did not shift to the People's Republic of China (PRC) when Japan switched its diplomatic ties from Taipei to Beijing in 1972.⁹

Beijing's displeasure with the Nakasone government's stance on the Kokaryo case was voiced by Deng Xiaoping at a meeting with Junya Yano, chairman of the Komeito (Clean Government party), who visited China in early June. Deng told Yano that the Japanese government should take proper action to rectify the "erroneous court ruling" in the Kokaryo case. Deng also criticized Japan's decision to boost the defense budget beyond the ceiling of one percent of its GNP and complained about the inadequate level of Japanese investment in China.

Reacting to Deng's criticism, a top-ranking Japanese Foreign Ministry official said Deng had become a "man above the clouds" (a Japanese idiom for an august figure), and that he had lost touch with the realities of Sino-Japanese relations. He added that "anyone who gets old becomes hardheaded."¹⁰ Beijing lodged a protest with Japan for the "malicious attack against Chairman Deng Xiaoping."¹¹ In an attempt to mollify the Chinese, Prime Minister Nakasone instructed Vice Foreign Minister Kensuke Yanagiya, who had triggered the controversy, to issue a statement of apology to China, and Yanagiya apologized.¹² Shortly thereafter he resigned his post. Meanwhile, Nakasone declared that Japan had no intention of pursuing a "two Chinas" policy, reaffirming that "Japan's national policy recognizes only one China and considers Taiwan as a part of China."¹³

At the fifth Sino-Japanese Ministerial Conference, held in Beijing on June 26-28, 1987, Deng Xiaoping reiterated Beijing's displeasure with Tokyo's handling of the Kokaryo case, asking Tokyo to resolve the thorny issue promptly. He also complained to visiting Japanese Cabinet members that Japan was not doing enough in the area of economic cooperation. In his response, Japanese Foreign Minister Tadashi Kuranari reiterated Tokyo's position that it "cannot interfere in the judicial process because of the constitutional provisions of separation of powers." Kuranari reassured the Chinese that Japan would abide by the provisions of various Sino-Japanese agreements made since 1972 and that there was no need to worry about Japan's defense policy.

The Kokaryo case was not the only issue discussed at the conference. In his talks with the Japanese ministers, Chinese Prime Minister Zhao expressed his government's displeasure with the trend of increasing Japanese investment in Taiwan while maintaining an unsatisfactory level of Japanese investment in China. Zhao also expressed his concern about the perennial trade imbalance between China and Japan, which totaled over \$21.5 billion from 1972 to 1986, and he urged Japan to rectify the situation by adopting necessary measures like lowering its tariffs and eliminating unreasonable restrictions.

In an attempt to improve Sino-Japanese relations,

⁶Japan Times, January 14, 1987.

⁷Carl Goldstein, "Unofficial Ties That Bind," *FEER*, September 25, 1986, p. 19. See also, Tsuyoshi Yamamoto, "Nakasone Seikenka no Nitchu Kankei," *Sekai* (Tokyo), August, 1987, pp. 48-49.

⁸Goldstein, op. cit., p. 18.

⁹Yamamoto, op. cit., p. 45. See also, Tatsumi Okabe, "Nitchu kan no moya moya ga Shuchuteki ni arawareta Kokaryo Mondai," *Ajya Jijo*, September, 1987, pp. 15-18.

¹⁰Japan Times, June 9, 1987.

¹¹Renmin Ribao, June 8, 1987.

¹²Japan Times, June 16, 1987.

¹³Japan Times, June 14, 1987.

Prime Minister Nakasone offered additional economic aid to China. On September 28, 1987, at a reception held in Tokyo in commemoration of the fifteenth anniversary of the normalization of Sino-Japanese diplomatic relations, Nakasone announced his government's decision to provide a special ¥100-billion "soft" loan to help China's economic development. The offer was contained in a congratulatory message he exchanged with Prime Minister Zhao through the Chinese ambassador at the reception.

Despite Beijing's professed wish for an early settlement of the Kokaryo dispute, it became increasingly clear that it would not be settled by Prime Minister Nakasone, whose term was to expire in November, 1987. On November 6, 1987, Noboru Takeshita succeeded Nakasone as Prime Minister of Japan. Chinese Prime Minister Zhao congratulated Takeshita on his new post and expressed his appreciation for the new Prime Minister's willingness to contribute to the development of Sino-Japanese friendship. At the same time, Zhao expressed his hope that Prime Minister Takeshita would settle the Kokaryo case at an early date. It is reported that Prime Minister Takeshita has accepted Zhao's invitation to visit Beijing and will visit China in August, 1988, to commemorate the tenth anniversary of the signing of the Sino-Japanese peace treaty of 1978.¹⁴

AID TO CHINA

By the fall of 1987, it had become evident that Japan was playing an important role in China's "four modernizations" program, which had been launched in 1978 to quadruple China's GNP by the year 2000. The magnitude of Japan's role can be indicated by highlighting its contributions to China's economic development.¹⁵

First, Japan has provided substantial financial assistance to China for modernization programs. In addition to \$10 billion in short-term and medium-term credits offered to China by a consortium of Japanese commercial banks in 1979 and 1985, the Japanese government has agreed to provide ¥870 billion (\$4.3 billion) in official development loans (\$1.5 billion in 1979, \$2.1 billion in 1984 and \$670 million in 1987) and over \$4.4 billion (\$2 billion in 1979 and \$2.4 billion in 1984) in Ex-Im Bank loans. These credits have been an important factor in financing the construction of 13 key industrial projects

¹⁴ *Yomiuri Shimbun*, November 20, 1987, and January 1, 1988.

¹⁵ For a detailed analysis, see Hong N. Kim and Dick K. Nanto, "Emerging Patterns of Sino-Japanese Economic Cooperation," *Journal of Northeast Asian Studies*, Fall, 1985, pp. 29-47. See also Dick K. Nanto and Hong N. Kim, "Sino-Japanese Economic Relations," in United States Congress, Joint Economic Committee, *China's Economy Looks Toward the Year 2000* (Washington, D.C.: Government Printing Office, 1986), pp. 453-471.

¹⁶ *Nitchu Keizai Kyokai*, *Nitchu Keizai Koryu 1986 nen* (Tokyo: Nitchu Keizai Kyokai, April, 1987), p. 206.

¹⁷ *Ibid.*, p. 174.

¹⁸ *Ibid.*, pp. 50-51.

and the development of coal and crude oil resources in China.

Second, Japan has been the primary source of China's imports of industrial plants and technology. From 1978 to 1986, approximately 48 percent of China's imports of whole plants and high technology came from Japan. Of the \$20.6 billion in such contracts signed with foreign suppliers during this period, Japan accounted for nearly \$10 billion. By contrast, the United States share was 8 percent while West European countries accounted for about 38 percent.¹⁶

Third, since 1981 Japan has played an important role in renovating existing factories in China. China's original plan called for the renovation of 300 key factories under Japanese guidance. By February, 1987, 166 projects with Japanese firms were under way. The factories under Japanese guidance for renovation produced not only consumer goods, but chemicals, machinery and pharmaceuticals.

Fourth, Japan has provided various forms of technical assistance and cooperation to China, including training Chinese technical personnel in Japan (310 in 1985), dispatching Japanese advisers and consultants to China (185 in 1985), providing equipment, participating in joint technical cooperation projects (medical, family planning, industrial management, telecommunications training) and conducting research and feasibility studies on development projects. China has also imported from Japan and Western industrial nations technologies (3,900 contracts at a cost of \$3.6 billion from 1981 to 1985).¹⁷ Moreover, as of 1986, there were over 3,000 Chinese students studying in Japan.

Last but not least, joint ventures provide an area of bilateral economic cooperation. Since the enactment of the Chinese Joint Venture Law in 1979, China has tried to attract Japanese equity investment. The Japanese government decided to extend its "foreign investment insurance" for Japanese firms investing in China in 1985; since then, there has been a substantial increase in both numbers and amounts in Japanese investments in China. By the beginning of 1986, the Japanese had set up 183 joint ventures with the Chinese, with a total investment of \$430 million.¹⁸

SINO-JAPANESE TRADE

Through the judicious use of economic aid, Japan has made significant progress in expanding Sino-Japanese trade since the signing of the Sino-Japanese Long-Term Trade Agreement in 1978. The volume of Sino-Japan (Continued on page 178)

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"Japan's economy has grown phenomenally, but its economic success has become a major source of world economic instability. Today, Japan faces the urgent task of transforming the pattern of its economic activity, its internal economic system and its policy structure."

The Japanese Economy Internationalized

BY ROBERT S. OZAKI
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DURING the period of Japan's accelerated economic growth from the mid-1950's to the first oil crisis of 1973-1974, Japan's external trade made a relatively neutral net contribution to the growth of its economy. Industrial expansion was promoted and sustained primarily by increasing domestic demand. Exports grew rapidly, but so did imports of raw materials and energy sources to fuel the internal industrial machinery. Balanced trade or an import surplus was typical of the period.

After the oil crisis, a new trend emerged. Japan's exports tended to grow faster than its gross national product (GNP) or imports, making the Japanese economy more export-led than it had been previously. There are several reasons for this. The growth rate slowed from 10 percent to between 4 percent and 5 percent per year, which automatically reduced imports in general and imports of industrial materials in particular. Faced with the steep rise in energy costs, Japanese firms made efforts on all fronts toward energy conservation, which resulted in a sizable drop in the imported energy-intensity of their products. At the same time, to cope with sluggish domestic demand, the firms were driven to maximize their exports, furthering the export-orientation of the economy.

Before 1974, the heavy (large-scale) manufacturing industries like steel, shipbuilding, petrochemicals, automobiles, synthetic textiles and home appliances were the backbone of Japan's accelerated growth. By the time of the first oil crisis, many of these industries had matured. They subsequently became depressed, thanks to the

global recession, the rise of newly industrialized countries competing with Japan in the manufacture of these products and domestic market saturation. The decline of the old industries has not been sufficiently offset by the rise of new industries requiring the same magnitude of growth-promoting plant and equipment investments. The pace of capital formation and technological innovations has been tempered, relative to earlier decades. The values added by the much heralded high-technology industries (centering around computers and microelectronics) are smaller than is commonly believed.¹ In the absence of a new generation of irresistible consumer goods and suffering nightmarishly high land and housing prices, Japanese consumers have been saving instead of spending.²

Thus Japan, with the second largest economy in the world, has become a nation that exports too much and imports too little, much to the dismay and frustration of deficit-prone countries, especially the United States. Enormous trade surpluses, instead of being spent in Japan, have found their way abroad as capital investments. For 1986, Japan's trade surplus was \$102 billion, of which \$52 billion was charged to the United States, and the net capital outflow from Japan amounted to \$144 billion. In contrast, in the same year the United States ran a trade deficit of \$134 billion and absorbed a \$57-billion net capital inflow from abroad. In 1985, Japan became the world's largest creditor nation, with net external assets of \$130 billion, while the United States, the richest country on earth, became the world's largest debtor nation, with net external liabilities of \$107 billion.³

Aside from whom or what is to blame, there is a wide consensus that the current disequilibrium of the world economy—largely characterized by Japan's disproportionate trade surplus and the monumental United States trade deficit (to say nothing of the seemingly unrepayable \$800 billion in external debts carried by the developing countries)—cannot long continue without inviting major international economic and financial crises.

Translated into an obligation on the part of Japan, this means that Japan is expected to alter the internal properties and structure of its economy fundamentally to make it an equilibrating (rather than a disequilibrating) force vis-à-vis the international economic community, com-

¹In 1986, the value of the output of industrial robots was ¥200 billion and the value of office automation equipment (excluding computers) was ¥600 billion. Their total (¥800 billion) approximately equals the value of output of soy sauce, other sauces and miso (bean paste). The value of output of computers was ¥3.6 trillion, which was less than sales at pachinko (pinball machine) parlors (¥5 trillion). New plant-and-equipment investment in electronics was ¥1 trillion, accounting for only 2 percent of total private investment. Hiroshi Takeuchi, "Restructuring the Firm's Managerial Strategy," in Ryuichiro Tachi, ed., *Japanese Economy and Enterprise in the 21st Century* [in Japanese] (Tokyo: Toy Keizai Shimpasha, 1987), pp. 331-332.

²According to the Organization for Economic Cooperation and Development, average household saving rates as a percentage of disposable income (1975-1985) were: 6.4 (United States); 18.9 (Japan); and 12.7 (West Germany).

³These figures are from the Bank of Japan.

mensurate with its weight and strength in the world. Dependent as Japan is on the world economy for its continued prosperity, it has become imperative that Japan "internationalize" its economy to a far higher degree than it has already achieved.

Japan's trade liberalization began in 1960 and its capital liberalization began in 1967. By the conventional criteria of tariff and nontariff barriers, at present Japan is as open as the Western industrial countries. The new internationalization, however, is meant to go beyond conventional measures, changing the mode of internal economic activity and affecting the economic system as well as government policy.

In the name of international economic harmony, Japan must reduce exports and boost imports (especially of manufactured goods). In the context of a free economy, like Japan, this is easier said than done.

After the Plaza Accord (the G-5 Agreement) in September, 1985, the yen began to revalue sharply, registering a 60 percent appreciation against the dollar by the summer of 1987.⁴ The yen revaluation raises prices of Japanese goods to foreign buyers, lowers prices of foreign goods to the Japanese and presumably decreases Japan's trade surplus as foreigners buy less from Japan and the Japanese purchase more foreign goods.

But there are qualifiers for this eventuality. Foreign import demand for Japanese goods must be sufficiently price-elastic so that the higher prices of Japanese goods will quickly discourage foreign buyers from importing them. If not (if, for example, foreign consumers or producers have become dependent on high-quality Japanese products), foreign buyers will continue to import Japanese goods despite higher prices. Japanese import demand similarly has to be price-elastic if Japanese imports are to increase after the yen is revalued. However, the desired price effects of the yen revaluation may be offset by the income effect, because import demand is a function of both import price and the income trend in the importing country. Then there is the J-curve effect; namely, it takes time to complete adjustments to the new exchange rates.

To complicate the matter further, the balance of trade, the focus of international concern, is a balance of values (not volumes) of exports and imports. The volume of Ja-

panese exports may decrease while their value, because exports are higher-priced, continues to rise. Likewise, because of lower prices, after the yen revaluation the volume of Japanese imports may increase without necessarily raising their value. In 1986, there was little basic change in Japan's trade imbalance. In 1987, the volume of Japanese exports fell and the volume of imports rose; yet in value terms the large trade surplus persisted.

The yen revaluation has aggravated the recessionary trend that started before the fall of 1985. It has also exerted increasing pressure on Japanese firms to expand their direct foreign investments, especially in East Asia and Southeast Asia. Because of the steep yen upvaluation, Japanese firms have lost their export-competitiveness in many products, and it has become economically advantageous for them to produce parts, components and low-end manufactures abroad and import them at lower cost.

The acceleration of direct foreign investment generates benefits and problems for Japan. It is a desirable trend, inasmuch as it reduces Japanese exports and increases Japanese imports. The vertical international division of labor (whereby Japan imports raw materials and produces and exports manufactures) has historically served the nation well. However, new circumstances compel Japan to adopt a horizontal international division of labor, with Japan exporting as well as importing manufactures; this makes the nation's trading posture less "adversarial."

The trend of rising direct foreign investment creates new domestic problems. As long as the Japanese economy is growing rapidly, direct foreign investment does not cause unemployment in the home economy, because the replaced workers can easily be transferred to expanding sectors. When the economy grows slowly, the surplus labor resulting from the shift of production to foreign locations may not be completely absorbed by the non-manufacturing industries. Despite the projected growth of the service industry offsetting the relative decline of manufacturing, the rate of unemployment in Japan is expected to rise moderately toward the end of this century.⁵

The expansion of direct foreign investment may lead to a serious disparity between gains to the firms and gains to the nation's economy. The firms move production sites overseas because such moves are cost-effective. But there may be adverse long-term effects on the economy as a whole as more manufacturing moves out of the country. There is much debate in Japan today concerning the prospect of "hollowing out" (or deindustrializing) the Japanese economy. Some argue that the danger of hollowing out the manufacturing industry is real. Others hold that the structural transformation of the Japanese economy has been a continuing process since the late nineteenth century, and that there is nothing fundamentally different about the latest developments.⁶

⁴In September, 1985, the exchange rate was around ¥250 to \$1. In late October, 1987, the yen appreciated to ¥138 to \$1.

⁵According to the Japan Economic Research Center's (JERC) long-term forecasting, the Japanese economy will grow between 4 percent and 5 percent per annum during the balance of this century, becoming steadily more service-oriented; in the year 2000 Japan will be producing about 20 percent of the world's output, and the exchange rate will be in the neighborhood of ¥100 to \$1. *JERC Bulletin*, March 1, 1987, p. 47.

⁶The government is generally optimistic about the hollowing-out effect. *The Interim Report*, December 1, 1986, of the Special Committee on Structural Adjustments of the Economic Deliberations Council predicts that the weight of manufacturing in *real* GDP (gross domestic product) will increase from 30 percent in 1980 to 39 percent in 2000.

The growth of direct foreign investment may create problems in host countries. Thus far, Japan has not been particularly efficient in producing capable international managers relative to the demand for them. Japanese firms abroad have often been criticized for the overpresence of Japanese managers, their excessive dependence on the home office and their exclusionism toward non-Japanese personnel. The growth in number and in scale of direct foreign investment will inevitably stir new frictions between the Japanese firms and the managers, labor and governments of the host nations.

It is generally recognized in Japan today that in order to boost imports, domestic demand needs to be stimulated along with the yen revaluation. Expansion of the domestic market means rising levels of income and spending that will induce an increase in import demand. There is an ironic twist in this approach to import expansion. Other things being equal, more domestic demand implies less internationalization of the economy. Yet to increase imports for the sake of internationalization, domestic demand ought to be stimulated.⁷

How effective the stimulative policy mix will be remains to be seen. The government still carries large debts that were accumulated through massive deficit financing in the years after the oil crisis of 1974. Hence it is not easy for the government to invoke an expansionist fiscal policy. Public works projects in Japan are notoriously cost-ineffective, because of extremely high land prices.⁸ Lower interest rates under a new easy-money policy may encourage a further capital outflow, causing revaluation of the dollar. There is uncertainty about the extent to which the proconsumption, antisaving policy measures (apart from their political complications) will reduce the nation's propensity to save.

REMAKING THE SYSTEM

The international economic and financial regime that emerged under United States leadership after World War II remained cohesive and viable for approximately 25 years. International finance was supported and regulated by the International Monetary Fund (IMF), with the dollar as the key currency. The regime advocated free, multilateral trade; the GATT (General Agreement on Tariffs and Trade) provided a framework for reducing tariffs and quantitative import restrictions. The economic integration of nations was understood to mean that each nation would remove as many conventional

⁷The importance of domestic-demand stimulation was emphasized by the government-commissioned *Maekawa Report*, released in April, 1986.

⁸A piece of prime Tokyo property the size of a standard page of typing paper would cost about \$12,000 today. On the basis of average land prices, it would cost twice as much to buy Japan as it would to buy the United States. See "Outrageous Land Prices in Japan," *San Francisco Chronicle*, October 14, 1987.

⁹For a full discussion of the concept, see William R. Cline, "*Reciprocity: A New Approach to World Trade Policy?*" (Washington, D.C.: Institute for International Economics, 1982).

tariffs and import quotas as was politically feasible, aiming at a mutually beneficial international division of labor. But as a matter of national sovereignty, outsiders were not to interfere with each nation's internal economic system.

With the weakening of the United States economy after the late 1960's, the cohesion of Pax Americana began to erode. The Bretton Woods system that defined the postwar international financial arrangements collapsed in August, 1971, when President Richard Nixon announced the suspension of dollar-gold convertibility. Once a nation with the world's strongest currency and a steady external surplus, the United States was beset by huge, persistent and ever-growing trade deficits. Along with the growth of protectionism in the United States, new thinking about the rules of international economic competition developed.

Based on the perception that many countries (especially Japan, despite the fact that it is an advanced economy) maintain invisible trade barriers and unfair trade practices, which affect the United States ability to compete in the world market, the United States government prodded a new doctrine of "fair" trade. One difficulty with the doctrine is that the fairness of trade is essentially a political, not an economic, concept, and exists in the eyes of the beholder. The idea of most-favored nation treatment (i.e., a nation receives the best possible tariff concessions from another) of earlier days was replaced with the concept of "reciprocity"; namely, country A should be able to do in country B whatever country B can do in country A. By this criterion, a country not providing reciprocity is deemed as unfair and may be subject to sanctions.⁹

Under the new doctrine, a nation's economic system (a composite of laws, customs, conventions and traditions that define and condition the nation's economic activity) can no longer remain untouchable behind the veil of national sovereignty, but instead must be exposed to scrutiny and criticism by other nations. Thus, the wave of internationalization has risen well above Japan's shoreline of tariffs and import quotas, and now Japan's internal economic system is under increasing foreign pressure to liberalize.

The list of issues at hand includes: a further deregulation of banking and the money market; the elimination of agricultural protectionism (particularly of rice); the removal of government-supported monopoly elements in the distribution system; the practices of enterprise groups that tend to discriminate against foreign firms; the closed bidding system for government contracts favoring only a select group of Japanese construction firms; and the interpretation of the antimonopoly laws. While opening the economic system will enhance Japanese consumer welfare, every issue involves special interest groups that possess formidable political clout to preserve the status quo.

There are philosophical issues as well. From the Jap-

anese perspective, the United States application of anti-trust laws sometimes seems too strict, to the point of reducing, rather than improving, the efficiency of American firms. On the other hand, to American observers, practices like recession cartels and interfirrm cooperation for research and development, which are legal under the Japanese antimonopoly law, seem to violate the spirit of fair trade. Similarly, Americans have the impression that Japanese work too many hours a day, whereas Japanese feel that Westerners should perhaps work longer hours for the growth and prosperity of Western economies.

The currently mounting tension in United States-Japanese relations is a manifestation of the contradictions of the nation-state system in the age of globalism. The system may have had its logic, rationale and utility in a bygone era, but it has become a large part of the problem rather than a solution. Though unimaginable at present, the not-too-distant future may see the formation of a common market or a Japanese-United States free trade area as the ultimate solution to the problem of bilateral economic disequilibrium.

REDESIGNING POLICY

As long as Pax Americana was intact and Japan's position in the world economy was modest, Japan did not have to worry about the question of policy coordination vis-à-vis other nations. Economic policy could be designed and pursued for domestic purposes only, and Japan could enjoy the status of a "free rider" as the United States, the dominant power, absorbed the costs of global trading—the multilateral system, the international monetary regime, and grants of economic aid and technical assistance to the developing countries.

Given the sheer weight of its economy (now 11 percent of the world economy) and the high degree of interdependence of nations today (as dramatically demonstrated by the synchronized stock market crashes in New York, Tokyo, London and elsewhere in October, 1987), Japan can no longer afford to be a passive beneficiary of world trade. Its economic policy must be internationalized, i.e., made consistent with the policies of other major countries. Should Japan's policy be incorrect or uncoordinated, the world economy will be adversely affected; this in turn will harm the Japanese economy.

Formulating a policy that will simultaneously harmonize international and domestic interests, however, is difficult. For instance, Japan's low interest rate policy may help reduce interest rates in other countries, with favorable effects on third world countries suffering from heavy external debts and on world production. And yet the policy may bring about unfavorable domestic effects on the savings of the aged, bank profits, and land prices.

From the standpoint of correcting the bilateral disequilibrium between the United States and Japan, in retrospect the United States should have pursued a mix of contractionary fiscal policies (to reduce imports and encourage exports) and easy-money policies (to avoid re-

valuation of the dollar); Japan's policy mix should have included expansionary fiscal policy (to encourage imports and reduce exports) and tight-money policy (to up-value the yen). Instead, by and large the two countries have implemented the opposite policy mixes since the late 1970's, following their domestic objectives and circumstances.

Under current Japanese tax policy, the effective rate of income tax is highest on urban salaried employees and is far lower on small-business owners and farmers. In addition, the progressivity of tax rates with respect to real income is steeper in Japan than in the United States; witness the fact that income taxes claim 80 percent of the gross personal income of Konosuke Matsushita, founder of Matsushita Electric. In the absence of major tax reforms, it is not improbable that an increasing number of highly educated and talented Japanese, beset by the unfair tax burden, will emigrate from Japan in search of a better, more comfortable living environment elsewhere.

Along with the growth of its economic power, Japan will be increasingly obliged to make larger contributions to the supply of international public goods. Its economic aid and technical assistance to the developing countries and its financial aid to the debt-ridden third world nations will rise. Even its hitherto passive defense policy may soon require a major overhaul, calling for revisions of the constitution and the United States-Japanese mutual security pact that allows Japan to meet most of its national security needs at American expense. Assumption of a greater responsibility for the world's peace and prosperity is costly. Japan's political leaders will face the difficult issue of how to distribute the burden of the new responsibility fairly among their constituents.

PROSPECTS

History offers no example of a country running a balance-of-payments surplus or deficit consistently and over a very long period. Britain was a net exporter of goods and capital in the latter part of the nineteenth century, a trend that did not continue after the first decade of the twentieth century. It is easy to forget that for many decades of this century, the United States maintained a trade surplus and that during the early postwar years, Japan was chronically plagued by an import surplus. If history is any guide, each country can expect to experience alternating periods of external surplus and deficit over time. In this sense, then, Japan's current problem of external imbalance is bound to disappear eventually in one way or another.

For example, the aging of Japan is proceeding faster
(Continued on page 178)

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“ . . . it should not be forgotten that Rengo is a trade union confederation deriving its strength from how well it promotes trade union activities in industries, firms and regions. Participation in national policy-making and maneuvering [by Rengo] . . . aim to bring about . . . a respectable bargaining position for the worker at the workplace.”

Labor Confederation in Japan

BY KOJI TAIRA

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In the labor sector of the Japanese economy, collective bargaining and labor market forces together determine terms of employment (hours, wages, benefits, working conditions and so on). Laws, regulations, technology, economic conditions, national economic policy and the state of the world economy set the perimeter of what is possible within the labor sector. Differences in the understanding of these macroeconomic constraints result in different expectations of terms of employment at the microeconomic (enterprise) level. Collective bargaining is a process of reconciling the different expectations of the employer and the employees to reach an agreement on terms of employment acceptable to both sides.

Economic stability and equity require an equilibrium relationship between macroeconomic constraints and the outcome of microlevel negotiations. Powerful trade unions may succeed in obtaining terms of employment that are too liberal for the economy to sustain. As a consequence, organized labor may benefit at the expense of unorganized workers, or undesirable macroeconomic adjustments like inflation may be induced to reduce labor's relative gains. Likewise, powerful employers may succeed in enforcing terms of employment that are too conservative and fail to maintain effective domestic demand. Such actions may induce an economic slowdown and a recession or, if exports are stimulated by the cost advantages, the economy may prosper at the expense of other countries.

These considerations suggest that in a complex open economy like Japan's, lopsided power relationships distort the structure of earnings or destabilize macroeconomic conditions. "Corporatism" is an institutional framework that coordinates microlevel labor-management relations with macroeconomic requirements. It refers to a system of tripartite participation, including business, labor and government in macroeconomic policy-making so that each group has a voice as well as a stake in sound macroeconomic management policies and

assumes responsibility for translating policies into microlevel activities. Industry-and enterprise-level negotiations based on national agreements then determine terms of employment in line with the desired direction and performance of the economy. (This is an economic interpretation of a more elaborate political science construct of "corporatism.")¹

However, the theoretical desirability of "corporatism" is one thing. Whether a country adopts it is another matter. Above all, how labor or business participates in macroeconomic policy-making is a political question. An interest group believes that it gains most when it participates alone and when no one else participates. In fact, Japan's policy is dubbed "corporatism without labor."² Japan's labor movement is fragmented and fails to generate the common agenda and political solidarity that would enable the movement to force its way into the policy-making arena.

A brief description of Japan's labor movement and its industrial relations is necessary. In the private sector, the basic organizational units are "enterprise unions," which are effectively confined in individual enterprises. An enterprise union's bargaining maneuver is restricted by considerations for the survival and growth of the enterprise. In the public sector, unions are organized in various ways conditioned by the level of government (state, prefectoral or local), by bureaucratic division (ministries, department or sections), by enterprise (as in public enterprises), by occupation (train operators, railway maintenance workers or teachers) and so on. These basic units are grouped into industry federations by ideological preference (democratic, socialist, Communist or neutral), strategic habit (militant, moderate or consensual) or by sectoral or industrial locus (public or private, heavy or light industry).

By the same self-selective process, industry federations are affiliated with national centers, two major and two minor, with about one-third of Japan's unionists unaffiliated. The major national centers are Sohyo (General Council of Trade Unions), which is dominated by public-sector unions, and Domei (Confederation of Labor), which is dominated by private-sector unions. The Sohyo unions tend to be radical and militant, while the Domei unions are generally moderate and conciliatory. The

¹P.C. Schmitter and G. Lehmbruch, eds., *Trends towards Corporatist Intermediation* (Beverly Hills: Sage Publications, 1979).

²T.J. Pempel and Keiichi Tsunekawa, "Corporatism without Labor? The Japanese Anomaly," in Schmitter and Lehmbruch, op. cit.

minor national centers are Shinsanbetsu (Federation of Industrial Organizations) and Churitsu Roren (Federation of Independent Unions). They are "pragmatic" and are apparently uncomfortable with the ideological preoccupations of Sohyo and Domei. In recent years, it is these smaller trade union centers that have proved most resourceful in the unification efforts of Japanese trade unions.

A unified labor movement has long been viewed as a prerequisite for labor's effective participation in national policy-making. Corporatism requires a "peak" organization for each well-defined interest category like business or labor. The peak organization behaves like a government, promoting the interests of its constituents vis-à-vis other interest groups; it also forces on its constituents terms of agreement it has negotiated with other groups. Today, the unification of Japanese labor is in sight. On November 20, 1987, a new comprehensive confederation of private-sector trade unions was inaugurated, absorbing the great majority of private-sector constituents of the existing (or former) national centers.

THE END OF SHUNTO UNIONISM

Aided by unprecedented worldwide economic development, Japan's economic growth during 1955-1973 exceeded anyone's wildest expectations. In this period, trade unions were preoccupied with how to devise demands and bargaining strategies to translate the incredible economic growth into appropriately improved terms of employment. Collective bargaining then focused on the Shunto (spring offensive) for higher wages. The national centers of trade unions organized "spring offensive committees" and coordinated schedules of bargaining rounds in various industries. Industries and firms most likely to concede the largest wage increases were "attacked" first. Gains made from them were then used as patterns of settlement for other industries. Thus, a Japanese-style bargaining pattern arose. Strike votes were taken at early stages of negotiations and a varying number of "waves of strikes" were deployed during bargaining to overwhelm the employer.³

Much of the time, however, even the most daring wage increases tended to fall behind economic growth. (During the 1950's and the 1960's, no one really understood the rapid economic growth and every prediction or forecast of growth rates fell far short of the actual performance of the economy.) Ironically, by the time the annual escalation of demands was established almost as a "natural right" of Japanese workers, the objective conditions of the world economy had begun to change, putting

³Koji Taira, "Japan after the Oil Shock," *Current History*, April, 1975.

⁴See *ibid.*, and Koji Taira, "The 1973-1978 Stagflation in Japan: A Watershed?" *Current History*, November, 1978.

⁵S.B. Levine and Koji Taira, "Interpreting Industrial Conflict: The Case of Japan," in B. Martin and E.M. Kassalow, eds., *Labor Relations in Advanced Industrial Societies* (Washington, D.C.: Carnegie Endowment for International Peace, 1980).

the aggressive Shunto strategies dangerously out of line with the ability of the Japanese economy to deliver.⁴

The first Oil Shock of 1973, which quadrupled the price of crude oil overnight, was a warning that the age of rapid growth (which piggybacked Shunto unionism) had come to an end. In 1974-1975 the Japanese economy recorded an unprecedented, though slight, negative growth. The Japanese were doubly shocked when they discovered that during the same period, trade unions had used their strike weapon on an unprecedented scale to obtain increases in money wages that were far in excess of the rate of inflation. An economy weakened by an externally imposed cost inflation was dealt another blow from an internal source: a rebellion of the working class. For the first time in a long while, the Japanese shuddered at the specter of a social revolution. Japanese unionism demonstrated a power that no one had suspected. But it was a Pyrrhic victory that did not benefit anyone, not even the unions beyond a temporary advantage.⁵

In hindsight, the villain in the piece was the inelasticity of expectations bred of the previous 20 years of economic growth. The remedy was the adjustment of expectations to the changed economic fundamentals. It required both an understanding of the new macroeconomic conditions and a wide sharing of relevant information. Workers had to see problems beyond the higher costs of living. Employers had to look for innovations for efficiency, marketing and product development rather than passing the rising costs of production to consumers through higher product prices. And the government had to do everything possible to stabilize the economy, subject to new domestic and international constraints. In other words, individuals and groups had to reassess their respective interests in the changing national economy.

Toward this end, business, labor and government had to reach a common understanding of the problems at hand. This required the participation of labor in national policy-making, which had hitherto been dominated by business and government. Fortunately, efforts for such tripartite participation in policy-making were already under way, and the trade unions began to demonstrate their ability to go beyond immediate concerns about wages at the enterprise level and to think in terms of the superordinate goals of national economic policy that would benefit both business and labor.

CONVERGING EFFORTS

During the 1970's, the distance between labor and economic policy-making shrank somewhat because of two developments. One was Sanrokōn (the Japanese abbreviation for an informal tripartite forum hosted by the minister of labor, the "Industry-Labor Conference"). This forum was inaugurated in 1970 for an entirely different purpose. At that time, the overriding concerns were with worsening labor shortages and increasing labor militancy, which were feared as an invitation to a cost-push inflation. A popular response to cost-push in-

flation in many countries is an "incomes policy" based on central negotiations for the moderation of increases in wages and prices. Although Sanrokōn did not become an incomes-policy instrument, its concerns with inflation were timely in the aftermath of the Oil Shock. After the inflation subsided, Sanrokōn freely ranged over many topics that the participants thought were useful for the economy in general or important to their respective interests.

The other development was a trade union initiative to organize Seisū Kaigi (the Japanese abbreviation for an inter-union organization, "Trade Union Council for Policy Promotion"—TUCPP, hereinafter). TUCPP was inaugurated in October, 1976, by 16 industry federations of unions (2 from Sohyō, 6 from Domei, 3 from Chūritsu, 2 from Shinsanbetsu and 3 from unaffiliated unions). By the fall of 1978, four more industry federations joined TUCPP. It is significant that this important initiative for inter-union cooperation came from one of the smaller national centers, Chūritsu.

TUCPP's policy analyses and proposals were communicated directly to the Prime Minister of Japan. While TUCPP did not have its own representatives at Sanrokōn, several labor members of Sanrokōn were leaders of federations participating in TUCPP. In addition, TUCPP approached and exchanged research findings and policy priorities with political parties (other than the Communist party), major industry and employer associations and selected ministries of the government. The bilateral contacts that TUCPP cultivated with the policy-making establishment enabled TUCPP to impress the establishment with labor's understanding of national economic problems and labor's priorities in economic policy. Comments and feedback received in return were useful for measuring the differences between TUCPP's and others' views of problems and policy priorities.⁶

Meetings to talk things over are taken seriously in Japan because meeting in person implies an exchange of influence. Once the positions of two parties are revealed to one another at a meeting, each party in its subsequent action is morally (though implicitly) obligated to honor the other party's previously stated position. Therefore, the bilateral acceptance of TUCPP by various organizations entrenched in policy-making processes implies TUCPP's participation in policy-making. Many policy proposals were adopted (cynics would call it co-opted) by the ruling Liberal Democratic party (LDP), which (impressed with TUCPP's activities) even called it a "friendly" labor organization for the party. For the same reason, the more radical, leftist elements of the labor movement denounced TUCPP for selling out to Japan's reactionary forces.

⁶Katsumi Yakabe, *Zenmin Rokyo no Kenkyū* (Tokyo: Japan Productivity Center, 1985).

⁷Isoo Yoshimura, "Leading Actors Promoting Labor Front Unification," *Japan Labor Bulletin*, vol. 2, no. 2 (February, 1983), p. 6.

This indicates how thin the dividing line is between effective influence-peddling (to promote one's own interest) and co-optation or sellout (to serve the interest of others or merge one's own interest with another's). In the political context that has apparently legitimized a permanent one-party rule by LDP, labor's participation in policy-making cannot be construed as anything else than participation in LDP-led government. Given the radical, antiestablishment, reformist roots of the labor movement, it was not easy for some trade unionists to countenance even the modest rapprochement TUCPP has made with the existing government structure. But to refuse to deal with the system that shows no signs of disintegrating means a continued alienation of labor from national policy-making.

Thus a dilemma exists: participation in national policy-making with the government of a party that the labor movement generally dislikes versus permanent opposition, which, if satisfying emotionally and ideologically, is ineffective for the promotion of labor's interests. Japan's parliamentary democracy keeps failing to elect labor's political allies in large enough numbers to govern the country. Given these political realities, TUCPP's willingness to work with the existing system must be viewed as a constructive choice.

FROM ZENMIN ROKYO TO RENGO

In addition, the unions that formed TUCPP were making efforts to unify the labor movement and to generate a comprehensive peak organization. Over the years, there were many unification attempts, which were usually wrecked on the rocks of ideological differences, inter-union rivalries over leadership and fears of a new division of the labor movement between those inside and outside the new organization. By the time TUCPP had been formed, however, these divisive factors had been considerably weakened under the impact of new international and domestic economic conditions.

The irrelevance of ideologies and the futility of inter-union power struggles were recognized by an increasing number of unions. For example, Tekko Roren (the Federation of Steel Workers' Unions) of Sohyō had been converted to "thoroughgoing business unionism."⁷ With the whirlwinds of the energy-cost revolution, the glory days of smokestack industries were gone forever. Industrial leadership was passing to electric-electronic machines and appliances. The changing industrial structure was bound to affect the relative importance of various unions.

In March, 1979, the two minor trade union centers, Chūritsu and Shinsanbetsu, formed Sorengo (the General Confederation of Trade Unions) and announced that they hoped to make it a "catalyst" for labor movement unification. Sorengo successfully mediated between the two major centers and, in September, 1980, brought off an inter-union "Committee to Promote Labor Movement Unification," which included the

leaders of six federations (four of them belonging to the four national centers and the other two unaffiliated).⁸

In the course of 1981, this committee adopted guidelines for the process of unification, assigning leadership to private-sector unions. Although practically this meant Domei leadership, Sohyo went along. The settlement of the leadership question signaled a "go-ahead" to private-sector unions to march toward unification. Public-sector unions were to be left behind, because it was clear that they needed more time to make up their minds, a far cry from the days when the radical Sohyo unions repeatedly wrecked unification attempts by insisting on their terms (like simultaneous complete unification), however unrealistic the terms sounded to many private-sector unions.⁹

Out of the further efforts of the Committee to Promote Labor Movement Unification a "loosely associated" group of trade unions called Zenmin Rokyo (Japanese abbreviation for Japanese Private-Sector Trade Unions Council—JPTUC) was born in December, 1982. The activities and growth of this new trade union council are reviewed elsewhere in some detail.¹⁰ Zenmin Rokyo absorbed the policy analysis and participation activities of the previously mentioned TUCPP (which was suspended for the time being and finally dissolved when Zenmin Rokyo was later reorganized as Rengo). Zenmin Rokyo combined two major goals: the expansion and refinement of policy analysis and participation inherited from TUCPP, and the "transition" (*iko*) to an organization that embodied the unified labor movement. The national labor movement that Zenmin Rokyo leaders admitted as their role model was West Germany's DGB (*Deutscher Gewerkschaftsbund*, the Confederation of Trade Unions). The new organization to succeed Zenmin Rokyo was to be capable of representing worker interests in the national policy-making arena and implementing agreed policy measures throughout its ranks.

At its fourth annual convention in November, 1985, Zenmin Rokyo adopted plans to complete the "transition" to a unified labor movement by its sixth convention in the fall of 1987. The plans were executed in an orderly manner in the following two years. As the deadline for the completion of the "transition" approached, the pace of Japan's labor history accelerated. Domei and Churitsu decided to dissolve themselves and carried out the decision the day before the inauguration of the Rengo (the Japanese abbreviation of the General Confederation of Japanese Private-Sector Trade Unions). TUCPP was dissolved a few days earlier. Shinsanbetsu had decided to dissolve itself at the forthcoming conven-

⁸Yakabe, op. cit.

⁹Ibid., pp. 88 and 93.

¹⁰Koji Taira and S.B. Levine, "Japan's Industrial Relations: A Social Compact Emerges," in H. Juris, M. Thompson and D. Wilbur, eds., *Industrial Relations in a Decade of Economic Change* (Madison, Wis.: Industrial Relations Research Association, 1985).

¹¹*Asahi Shimbun*, November 21, 1987.

tion of 1988. Sohyo had pledged support for Rengo and announced its plan to dissolve itself in 1990. In place of the old national centers, a variety of interim groupings were formed for unions still hesitating to join Rengo.¹¹

The birth of Rengo is a historic landmark. It may be likened to the birth of Sohyo as a unified labor movement in July, 1950. That unity did not last long. Out of the explosion of Sohyo were born Domei, Churitsu and Shinsanbetsu in the early 1950's. What was left in the parent body continued as Sohyo to this day. It is this Sohyo that plans to dissolve itself in 1990. Thus, with the reunification under Rengo, an agonizing era of Japan's fragmented and fratricidal labor movement is coming to an end. At the time of its formation on November 20, 1987, Rengo comprised 62 labor organizations with a combined membership of 5.5 million, roughly 45 percent of the trade unionists in Japan. Real unification still belongs to the future.

Until Sohyo dissolves itself and sends its constituent unions into Rengo, the major division of the Japanese labor movement will be between Rengo and Sohyo, which may translate into an uneasy standoff of the private- and public-sector unions. Since half its private-sector unions moved to Rengo, Sohyo now depends almost exclusively on public-sector unions. However, Sohyo's public-sector unions are reported to be organizing their own coalition in preparation for the unification of all public-sector unions. Rengo remains cautious but plans, in due course, to intensify dialogues with public-sector unions, hoping to bring them into Rengo (one by one, rather than en masse).

The Communist party and the unions under its sway predictably oppose unification under Rengo. They have their own coalition to promote unification under the guiding principles of "class struggle" and "class solidarity." This coalition, called Toitsu Rosokon and organized in 1974, had been competing with the private-sector unification forces. The success of the latter in giving birth to Rengo apparently implies the failure of the Communist coalition's strategies. However, Rengo cannot afford the luxury of complacency; for one thing, the Communist coalition is nearly two million strong.

Rengo's organizational growth depends on a further integration of the hitherto unaffiliated unions and the growth of the member unions, including the organizing of unorganized firms and workers. The basic internal structure of Rengo is like any one of the former national trade union centers. Rengo believes that enterprise unions should form an industry federation, which then

(Continued on page 177)

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“ . . . Japanese R&D [research and development] is rapidly becoming internationalized. Ambitious government plans . . . are moving in this direction, and so are many firms and researchers.”

Research and Development in Japan

BY LEONARD H. LYNN

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Japan's investment in research and development (R&D) continues to rise, both in absolute terms and as a percentage of national income. Total spending passed ¥8 trillion in 1985. At 1985 exchange rates this was only \$34 billion, about one-third the level of United States spending in the same field. Converted to the exchange rates of early 1988, however, Japanese spending would total two-thirds of United States spending. As a percentage of national income, Japan now spends more on research and development than the United States. Japan has also caught up with the United States in number of researchers as a percentage of the population (in total number of researchers, it trails only the United States and the Soviet Union).¹

These statistics are even more remarkable in light of the change that has taken place over the past two decades. In 1965, Japanese spending on R&D was less than one-tenth of American spending and accounted for only about half as large a share of national income as it does now. At that time, Japan trailed West Germany, France and the United Kingdom in spending.²

The payoffs of this investment are becoming increasingly evident. In 1986, *Fortune* magazine asked experts from around the world to assess the relative strength of the United States, Japan, West Europe and the Soviet Union in four of the most important areas of new technology: computers, life sciences, advanced materials and optoelectronics. The experts rated Japan a strong second to the United States in computer technology, but judged it to be well ahead of West Europe and the Soviet Union. In some fields, like the development of gallium arsenide, Japan was ahead of the United States. And if certain trends in the use of parallel processing and artificial in-

telligence predominate, Japan could well move into the overall lead in computer technology.

Japan was also second only to the United States in the life sciences and advanced materials. In optoelectronics, Japan was clearly in the lead.³ A United States Department of Defense report in 1987 indicated that Japanese firms are equal to or ahead of United States firms in gallium arsenide devices and are taking the lead in developing technologies for various cathode-ray tubes, plasma display panels and liquid crystal displays. A 1987 Defense Science Board report said that in virtually every area of semiconductor production the United States has lost or is losing its technological lead to Japan (6 of the world's 10 largest microchip makers are now Japanese).

While the United States space program has faltered in the wake of the *Challenger* shuttle disaster, the Japanese have continued to progress in this area and are becoming increasingly independent of United States technology. In August, 1987, Japan launched a 1,200-pound engineering test satellite in which the second and third stages were based on Japanese technology. By early 1992, the Japanese National Space Development Agency hopes to have tested a Japanese first-stage launch vehicle. Meanwhile, Japan is proceeding with plans to launch a space shuttle in 1995. Some 250 companies now buttress a system of suppliers for the Japanese space industry.⁴

Some observers have pointed to patent statistics as still another measure of the rapid rise of Japanese technological strength. In Japan, the number of patents granted annually has exploded, and the number of patents granted in the United States to Japanese inventors has more than tripled since the mid-1960's. While the significance of patents as a measure of technological strength is controversial (as are the reasons for both the large number and the rapid growth in the number of patents held by Japanese), it is nonetheless startling to realize that in 1986, three of the top five firms in numbers of patents granted in the United States were Japanese. Hitachi led all American firms in the number of United States patents granted. General Electric was second, but Toshiba was third, ahead of IBM. In all, nearly one-fifth of the United States patents granted in 1986 were granted to residents of Japan.⁵

Increasingly, the Japanese see themselves as having moved into a leadership position with regard to research

¹Far fewer of Japan's human and financial resources are devoted to military research. Most of the statistics given here are drawn from the Japanese Science and Technology Agency.

²This topic is discussed in more detail in Leonard H. Lynn, "Japanese Technology at a Turning Point," *Current History*, vol. 84, no. 506 (December, 1985).

³Gene Bylinsky, "The High Tech Race: Who's Ahead," *Fortune*, vol. 114 (October 13, 1986), pp. 26-57.

⁴"Japan Shoots for the Stars," *JEI Report*, October 23, 1987.

⁵United States Patent Office statistics as reported in "Foreign Patents Up Again," *Research Management*, vol. 30 (July/August, 1987), p. 4.

and technology. And both the government and the business community have come under pressure to eliminate institutional rigidities that are seen as standing in the way of "creativity." There are also growing pressures, both from inside and outside Japan, to "internationalize" the Japanese research and development establishment.

FLEXIBILITY

Although the image of "Japan, Incorporated" is very strong in the United States, Japanese government financial involvement in R&D is relatively minor and continues to decline relative to private spending. The Japanese government has long provided a level of research support relatively low compared to other advanced countries. In 1980, only one-fourth of Japanese R&D funding came from the government, in contrast to government-funding rates of 50 percent for the United States, Britain, France and West Germany. This difference is even more pronounced today. In 1985, less than 20 percent of Japanese R&D funding came from the government, compared to 47 percent in the United States. Government spending on R&D is not declining in Japan; indeed this has been an area given some priority by government. Rather, the growth in all government spending has been constrained by the concern over budget deficits, while industry has increasingly found it necessary to invest in research to continue its development. In the 1980's, corporate spending on R&D rose from around 1.5 percent of sales to nearly 2.0 percent.⁶

Although the relative weight of the Japanese government's role in technology development may be declining, various government agencies are staking claims to areas in which new technology-based industries seem likely to emerge. The Ministry of International Trade and Industry (MITI), for example, is seeking to expand its domain in the area of basic research. The Ministry of Posts and Telecommunications, having lost control of the newly privatized Nippon Telephone and Telegraph Com-

⁶Ministry of International Trade and Industry (MITI), *Sangyo gijutsu kaihatsu seisaku to kiban gijutsu kenkyu enkatsu ho* (Tokyo: MITI, 1985), p. 177. The Japanese science and technology budget for fiscal 1986, for example, increased by 4.8 percent. This was in a year when the discretionary "general expenditures" category of the "general account" was cut. See Tokyo Office of the United States National Science Foundation, *Report Memorandum*, no. 93, February 25, 1986.

⁷The official English name of the Ministry of Education is "Ministry of Education, Science and Culture." The shorter designation is used here for convenience. For a discussion of the roles of these and other agencies in Japanese science and technology policy, see Leonard H. Lynn, "Japanese Research and Technology Policy," *Science*, vol. 233 (July 18, 1986), pp. 296-301.

⁸A United States National Science Foundation survey found that in 1985 more than 100 Japanese firms had spent \$9.14 million to fund research at United States universities. See "Japanese Support More Academic Research in the United States," *Research Management*, vol. 30 (March/April, 1987), p. 3.

⁹The Tokyo Office of the United States National Science Foundation, *Report Memorandum*, vol. 96, April 7, 1986.

pany, is trying to establish itself as a promoter of telecommunications technology. The Ministry of Agriculture, Forestry and Fisheries has a strong national interest in biotechnology. The Science and Technology Agency (attached to the Prime Minister's office) is trying to maintain its position of priority with respect to space and nuclear technology, especially in the face of challenges from other ministries. The Ministry of Education (with by far the largest R&D budget of any ministry) is attempting to maintain its position of strength with respect to basic research.⁷

For a number of years, Japanese policymakers have been concerned with what they regard as barriers to Japan's emergence on the frontier of new technology. Japanese universities, for example, have been faulted for not working with industry to develop new technology, a role played effectively by United States universities. Indeed, in 1983 Japanese industry gave more than twice as much money for research grants to United States universities as it did to Japanese universities.⁸ One reason for this was that Japanese law made it difficult for companies to make contributions to Japanese universities. Changes have recently been instituted by the Ministry of Education to facilitate such contributions. The ministry has also taken other steps to encourage cooperation among the universities, government laboratories and corporations.

In 1985, industry researchers were specifically encouraged to work with universities in six high-technology fields. The Ministry of Education has also begun a program to establish University-Industry Joint Research Centers at three universities. The centers will invite visiting researchers from participating companies to work on joint projects. In the past, because of civil service regulations, researchers from national universities faced the loss of retirement and other benefits if they worked temporarily in industrial laboratories. A wide-ranging law passed in 1986 addressed this issue, as well as other problems related to personnel exchanges.⁹

Japanese policymakers have also been concerned about what they see as Japan's relative weakness (compared to the United States) in finding venture capital for new technologies. While there has been some development of the venture capital industry in Japan, it has not been as strong as its American counterpart. In response, a new system of Key Technology Centers has been established under the Key Technology Research Facilitation Law of June, 1985. A major part of the funding for the Key Technology Centers comes from the money the government is realizing from the sale of Nippon Telephone and Telegraph (NTT) shares, as NTT is being transformed from a government-held concern to a private corporation. Government funding came to some ¥2.5 billion in fiscal 1986, approximately \$20 million. The centers, which are allocated funds jointly through MITI and the Ministry of Posts and Telecommunications, also draw financial support from the Japan Devel-

opment Bank and from private firms. The centers are intended to promote research that will provide "basic knowledge" in "generic technologies" that are not necessarily linked to specific industrial applications at this time.¹⁰

THE INTERNATIONALIZATION OF JAPAN'S TECHNOLOGY

In recent years, there has been strong pressure for the "internationalization" of Japanese R&D. Some of this pressure has come from foreign governments and firms demanding equal access. Some has come from Japanese, who hope that opening up their system will lead to increased strength in basic research. There has also been a natural movement toward internationalization arising from the increasing integration of the Japanese economy with that of the United States and other economies. American leaders in government and industry have been increasingly critical of what they see as imbalances in the United States-Japanese technology relationship. They characterize the relationship as one in which the Japanese are getting a "free ride." Americans believe the Japanese are aggressively drawing on United States research efforts without opening their own institutions to Americans.

It was widely reported in the United States, for example, that in 1986 there were more than 300 Japanese scientists working at the United States National Institutes of Health (NIH), most of them with United States government support. In contrast, there were only three American NIH researchers working in Japan. Although some NIH officials noted that the Japanese researchers were making important contributions to their programs and some observers suspected that the small number of United States researchers in Japan was caused more by a lack of qualified researchers able to speak Japanese than by intentional barriers, some critics saw a symbolic meaning in this "imbalance." A major theme at the 1987 meeting of the Japan-United States Committee on Scientific Cooperation, a joint venture of the United States National Science Foundation and the Japan Society for the Promotion of Science, was the need for more symmetrical access to technology between Japan and the United States. Similarly, the revised draft

¹⁰Science & Technology in Japan, vol. 6, no. 23 (1987), p. 72; Tokyo Office of the United States National Science Foundation, *Report Memorandum*, vol. 116 (January 27, 1987). MITI, op. cit., explains this program in detail.

¹¹The Tokyo Office of the United States National Science Foundation, *Report Memorandum*, vol. 89, December 30, 1985.

¹²The Tokyo Office of the United States National Science Foundation, *Report Memorandum*, vol. 96, April 7, 1986. The Japanese have also been involved in special purpose bilateral and international research programs for a number of years. One major area where this has occurred is in magnetic fusion research. See United States Congress, Office of Technology Assessment, *Starpower: The U.S. and the International Quest for Fusion Energy*, OTA-E-338 (Washington, D.C.: United States Government Printing Office, October, 1987).

of the United States-Japanese Treaty on Research and Development Cooperation in Science and Technology in September, 1987, reportedly called for facilitating the access of United States researchers to Japanese technology. In this plan, more American researchers would be allowed to work in Japan and more translations of Japanese research materials would be provided.

Many Japanese have also been promoting internationalization, seeing it as a means of strengthening Japanese basic research. Several government agencies have introduced new programs under this slogan in recent years. In 1984, the Ministry of Health and Welfare created a program under which some 80 cancer researchers were invited to the Japanese National Cancer Center over the following two years.

A 1985 report from the Prime Minister's Council for Science and Technology designated internationalization as one of the two major pillars of Japanese science and technology policy (the other was basic research). The report specifically urged the government to encourage the employment and admission of foreign researchers in universities and national research institutions.¹¹ The 1986 law directed at facilitating research exchanges among national institutes, universities and industry also contains sections promoting research exchanges with foreign countries. The law makes it possible for foreigners to receive research positions at national institutes and to become heads of sections or of research departments. It also makes it easier to transfer overseas patents developed as a result of collaborative research.¹²

In October, 1986, the Science and Technology Agency (STA) formally set up "the Frontier Research Program" to promote both basic research and international cooperation. The program is administered under the International Frontier Research System in the Science and Technology Agency's Institute of Physical and Chemical Research (commonly referred to in both English and Japanese as "Riken"). Initially, the program will concentrate on two major areas of study. One of these, the biology of regulatory processes in organisms, will examine topics like the aging process. Four teams of five or six members each will carry out this research. The other initial topic is developing new functional materials. Three teams will be engaged in this research. A third topic, brain research, will begin later.

STAFF RECRUITMENT

According to initial plans, some 35 scientists were to be recruited in the first year of the program, 28 of them from outside the Institute of Physical and Chemical Research. About one-third of the research staff was to be invited from overseas. The STA allocated \$6 million for the program's first year, but the program is tentatively planned to extend over 15 years at a total cost of about \$220 million. Researchers are appointed for one year; appointments are renewable for up to five years. One of the program's advisers is a foreigner, and so are the heads

of three of the seven laboratories (even though they are the heads of the laboratories, they are not based in Japan at this time).¹³

MITI has announced plans to hire foreign scientists to work in the laboratories of the Agency for Industrial Science and Technology. Under still another program, the Ministry of Education plans to invite about 100 foreign researchers with new doctorates to come to Japan beginning in 1988. Under this program, researchers from the United States, Germany, France and other countries will do research in Japan for one year. The idea for this program was reportedly suggested to the Japanese minister of education by William Graham Jr., science adviser to United States President Ronald Reagan.¹⁴

The Japanese have been criticized because some of the patents resulting from government-orchestrated collaborative research programs like the famed VLSI Project have come under government control, with the result that they are inaccessible to foreigners. In 1982, the Ministry of International Trade and Industry (parent of the Agency for Industrial Science and Technology, and thus holder of many of the more interesting government-controlled patents) established procedures by which foreigners could obtain licenses to these patents, but there were complaints about the difficulty of these procedures. In 1985, IBM managed to negotiate an agreement with Japan under which IBM would have access to government-controlled computer patents.

DEFENSE TECHNOLOGY

In yet another area, the Japanese have been widely criticized by the United States for benefiting from the protection afforded by American technology in defense, while withholding technology that might contribute to the United States defense effort. In January, 1983, Prime Minister Yasuhiro Nakasone's government agreed to modify Japan's ban on exports of defense-related technologies to allow the transfer of certain technologies to the United States that might have military application. Actual transfers, however, appear to have occurred more slowly than Washington had hoped.¹⁵

The United States Department of Defense invited Japan to participate in the Strategic Defense Initiative (SDI) in March, 1985. After considerable study, in September, 1986, the government of Japan formally announced it would participate. The United States and Japan signed an agreement in July, 1987. The agreement allows Japanese firms to participate in the develop-

ment of SDI technology in equal competition with other firms. This will be the first time Japanese government ministries have worked with private companies taking part in the Defense Department's procurement process.

Foreign firms also want access to the technologies being developed by the various research associations set up under the auspices of MITI and other Japanese government agencies. The Japanese government has been urged to allow foreign firms to participate in these consortia, although for various reasons this pressure has had little effect. In March, 1987, MITI announced plans for an International Superconductivity Technology Center, in order to exploit the rapidly developing new superconductor technology. Forty-four Japanese companies joined the center. MITI officials say they tried unsuccessfully to persuade foreign firms to join. Foreigners complain that under existing regulations they would be allowed to do research only at Japanese facilities, not in laboratories in their home countries. The Science and Technology Agency, a frequent rival to MITI as government mentor for the development of new technologies, established a New Superconductor Materials Forum in 1987. This organization is to serve as a clearinghouse for information. Of the 140 companies and research organizations that joined, only one was foreign (Montedison, the Italian chemical and engineering company).¹⁶

Despite these problems, much of the internationalization of Japanese R&D is occurring as the result of activities of private United States and European firms. In the last two years nearly 20 major United States and European chemical, pharmaceutical and electronics firms have set up R&D centers in Japan. IBM is spending ¥150 billion (over \$1 billion) on a software center in Chiba prefecture near Tokyo. Kodak is building a laboratory near Tokyo to use Japanese engineers to develop computerized equipment for filing documents and other images on microfilm and optical disks.

Ciba-Geigy (a Swiss pharmaceutical and chemical company) established a basic research laboratory in 1987 with 130 Japanese and foreign scientists. Some foreign firms are opening research facilities in Tsukuba Science City, near many Japanese government research laboratories. LSI Logic, PLC and Imperial Chemical Industries opened laboratories there in 1987. Upjohn plans to complete such a facility in April, 1988. In all, some 18 foreign-affiliated laboratories are planned in Tsukuba over the next several years. In another effort to gain access to Japanese technology, Deutsche Bank is opening a

(Continued on page 180)

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¹³The Tokyo Office of the United States National Science Foundation, *Report Memorandum*, vol. 97, April 18, 1986; Alan K. Engel, "Japan Adds Flexibility to R&D Effort," *The Scientist*, vol. 1 (September 17, 1987), pp. 1ff.

¹⁴*Japan Economic Journal*, November 14, 1987.

¹⁵"Whatever Happened to Defense Technology Transfers?" *JEI Report*, August 7, 1987.

¹⁶Stephen Yoder, "Americans Spurn Japan's Research Offer," *Wall Street Journal*, December 30, 1987.

“... when the Japanese economy becomes more self-sufficient in energy, the need to export goods will decrease. There is a real possibility that international influence can help generate domestic pressure in support of Japan's official goals of expanding energy sources and domestic demand.”

Japan's Energy Policy

BY SHIGEKO N. FUKAI

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Japan has practically no domestic fossil fuels except for coal, which has been too expensive to compete with imported oil since the 1950's. Japan's rapid economic growth before the oil crisis of 1973 was achieved by taking full advantage of an abundance of cheap oil supplied by the United States-based international oil companies.¹ The oil crises of 1973 and 1979 shook the foundation of Japan's energy policy and institutions, which had evolved within the framework of “the relatively stable postwar petroleum regime, managed by the large oil firms and protected by American diplomatic and military strength.”² Since 1973, measures have been implemented to conserve energy and diversify energy sources to reduce dependency on oil. In spite of the considerable success of this effort, Japan still depends on imported oil for nearly 60 percent of its energy needs; about 70 percent of this oil comes from the Middle East through the Strait of Hormuz. Energy security—how to secure a stable energy supply—continues to be the central issue in Japan's energy policy. Since the mid-1980's, however, the oil glut and the sharp increase in the yen's value have drastically changed the environment for Japan's energy policy.

The major actors in Japan's energy policy-making are government agencies, industry groups, Liberal Democratic party (LDP) members and energy specialists. The general pattern of policy-making has been that the ministry officials formulate a policy by consulting advisory councils, to which industry and other interested groups are invited, in addition to energy specialists and government agency representatives. The LDP mediates conflict

¹In 1973, only 10 percent of Japan's oil supply was developed by Japanese companies. Jon Halliday and Gavan MacCormack, *Japanese Imperialism Today* (New York: Monthly Review, 1973), p. 60; Yoshiharu Kitada, “Enerugi Sangyo Seisaku (Energy Industry Policy),” in Y. Kitada and Toshio Aida, eds., *Gendai Nihon no Keizaiseisaku* (Japan's Economic Policy) (Tokyo: Otsuki Shoten, 1984), pp. 90-91.

²G. John Ikenberry, “The Irony of State Strength: Comparative Responses to the Oil Shocks in the 1970's,” *International Organization*, vol. 40, no. 1 (Winter, 1986), p. 105.

³Ronald A. Morse, “Japan's Energy Policies and Options,” in Ronald A. Morse, ed., *The Politics of Japan's Energy Strategy* (Berkeley: Institute of East Asian Studies, 1981), pp. 1-14.

in the consultative process and tries to secure appropriations for Ministry of International Trade and Industry (MITI) projects and client industries. It is difficult to determine where policy initiatives originate, but observers generally agree that ministry officials make proposals based on their participation in various institutionalized channels, like advisory councils and study groups. This system provides stability in policy but, as critics note, it makes innovative change difficult.³

ENERGY POLICY, 1945-1973

During the period of rapid economic growth that began with reconstruction after World War II and continued until the 1973 oil crisis, Japan's energy consumption increased 7-fold and the consumption of petroleum increased 32-fold. Between 1960 and 1973, Japan's oil consumption increased twice as fast as other major industrial countries. Japan's energy policy before the first oil crisis evolved roughly through three phases: the occupation period from 1945 to 1951; the period of economic reconstruction from the early 1950's to 1960; and the high economic growth period from the early 1960's through 1972.

The postwar coal shortage created a critical bottleneck in the progress of economic recovery in Japan. Energy policy during this period (1945-1951) focused on increasing coal and steel production. Initially, mining companies expanded production by increasing labor rather than by modernizing facilities. Shortly thereafter, they implemented economic stabilization policies and both subsidies and reconstruction funds were terminated. Inflation was controlled, but a severe recession followed and the coal industry shifted its emphasis from production expansion to rationalization. In effect, this policy fostered the dependence of the coal industry on government support instead of encouraging self-help efforts to make it competitive.

Immediately after the war, in order to demilitarize and deconcentrate the Japanese economy, the Supreme Commander of the Allied Powers (SCAP) placed the oil industry under strict control. However, as the cold war developed, the Allied powers sought to foster a stable

anti-Communist regime by promoting economic recovery. In 1948, seven major Japanese oil companies were exempted from the deconcentration policy.

The Korean War in 1950 provided Japanese industry with timely "special (procurement) demands" and helped the economy move into an expansive cycle. The energy industry underwent reorganization. From 1949 to 1952, the oil companies, lacking the capital to build new refineries, entered into capital and technology tie-ups with American oil companies. (It is noteworthy that these tie-ups were made under the Foreign Investment Act, which was later applied with a strongly protectionist flavor.)⁴ During this period, Japanese policymakers were concerned primarily with securing crude oil at the lowest possible price.

The Japanese economy regained its prewar level of production in 1951, which was also the year in which Japan concluded its peace treaty with the United States. The announced national goal was to establish an independent economic foundation, i.e., to become self-supporting without United States aid or special procurements. The "energy revolution," the shift from coal to oil as a major energy source, supported this process.

Government energy policy demonstrated confusion and tended to fall behind the development of events because it was dictated by two contradictory goals: to protect domestic coal production and to reduce the cost of energy, which entailed the promotion of oil. Energy supply plans continuously overestimated the supply of coal, which began to decline after reaching its peak in 1961, and underestimated the need for oil, which surpassed the need for coal in 1962.

During this period (1951-1960), foreign ownership was estimated at between 50 percent and 75 percent of the oil refining and oil distribution industries. MITI's policy of not importing processed products meant that Japan needed a huge refinery industry. Lacking domestic capital, MITI continued to allow foreign oil companies to supply the cheap oil and the capital needed to rebuild and modernize the refinery industry. At the same time, however, MITI took action to reduce the foreign companies' share of the Japanese market by using its allocation powers. It also initiated and supported projects to develop Japanese oil sources outside the control of big foreign companies. The cost of domestic coal production became much higher than that of imported coal and crude oil. The government subsidized the shut-

⁴In March, 1949, Japan's largest refinery company, Nippon Oil, signed a refining and sales contract with Caltex. This meant that the oil industry in Japan would follow a policy to refine in the consuming country; thus American oil companies developed their huge crude oil reserves at negligible costs. As the United States restricted oil imports, the oil companies based in the United States decided to develop new markets for low-cost crude oil in Europe and Japan.

⁵Raymond Vernon, *Two Hungry Giants: The United States and Japan in the Quest for Oil and Ores* (Cambridge: Harvard University Press, 1963), p. 92.

down of inefficient coal pits and the modernization of remaining pits, but coal failed to remain competitive.

The rapidly expanding energy demand drove the electric power industry to concentrate on the construction of new power plants. MITI encouraged the introduction of foreign capital and technology in the transformation from hydroelectric to thermal power plants. A pattern was established in which a thermal power plant was manufactured by Japanese companies under a licensing agreement with United States companies.

In this period, oil became the most important fuel and raw material resource supporting Japan's economic growth. Starting in the early 1950's, the consumption of heavy oil increased dramatically as the paper and pulp, textile, and food industries shifted from coal to oil. The city gas industry also shifted from coal to oil. Rapidly expanding consumption caused cut-throat competition in the oil industry. Since MITI allocated import quotas according to past performances, competition to expand market shares intensified, causing the excessive competition that characterizes the industry today. Oil prices kept falling, except for a brief period during the Suez Incident in 1957; this severely weakened the financial base of the industry.

The energy revolution advanced at full speed from 1960 to 1972 with the liberalization of oil imports. The presence of low-cost Middle East oil fueled Japan's rapid economic growth. The foundation for nuclear power generation was also set on the basis of technology imported from the United States. But the coal industry deepened its dependency on government aid and failed to modernize.

The Petroleum Industry Law (PIL) of 1962 set the course of Japan's energy policy in the 1960's. The PIL's goals were "to insure a stable and low-cost oil supply through rationalization and proper coordination of the refinery business and thereby to promote economic growth and improve living standards." Specifically, MITI sought to control the "excessive competition" that afflicted the industry, and to expand independent sources of oil supply by encouraging exploration for oil by Japanese companies.⁵

The law empowered MITI to license refineries, approve refinery equipment, draw up energy supply plans, and promote production plans and crude oil acquisition plans. Although inspection and sanction powers were greatly weakened, the act made MITI the central institution to supervise the development of the oil industry. The rapidly increasing demand for oil (at an annual rate of 16.4 percent) made the licensing of refineries an extremely effective instrument for control. To correct the oversupply situation, MITI used administrative guidance to adjust production plans and announced standard prices to counter the sharp decline of prices caused by excessive competition. In spite of liberalization on paper, MITI continued to control oil product imports.

In the area of nuclear power generation, United States

companies started to sell reactors on a commercial basis in 1963. They adopted a strategy to recover research and development expenses by overseas sales. At the time, the Japanese were interested in saving research and development costs. Again, the pattern that emerged was to import foreign technology rather than to invest in research and development to build up an indigenous technology. In 1965-1966, all nine Japanese electric power companies ordered nuclear reactors from either Westinghouse or General Electric. Thus, except for the first reactor, which was imported from the United Kingdom, the reactors introduced during this period were all American light-water reactors.⁶

Another important development was the aggravation of environmental pollution caused by the mass consumption of oil. The Basic Law for Environmental Pollution Control was passed in 1967, followed by a series of pollution control laws in subsequent years. MITI formed a subcommittee on desulfurization in 1969 and, based on its recommendations, promoted the introduction of desulfurization equipment and plants through administrative guidance backed by a set of tax incentives.

In the late 1960's, a series of international developments made Japanese policymakers increasingly wary of the eventual end of the era of cheap oil. For instance, in 1967 Iran embarked on the nationalization of oil (a goal achieved in 1972), and the nationalist regime established in Libya in 1969 raised its oil prices. MITI increased its effort to diversify and expand national control over supply sources, but it was not prepared for the kind of oil supply disruption that occurred in 1973-1974.

THE OIL CRISES

At the time of the first energy crisis in 1973, 77.6 percent of Japan's energy supply was oil, 80 percent of which was imported from the Middle East. Panic buying and hoarding by trading firms recreated the sense of scarcity of the immediate postwar days. Until the crisis, Japanese policymakers had taken abundant cheap oil for granted and had allowed the market to determine the energy supply structure. Although MITI had introduced mandatory oil stocks to be held by refineries (60 days of production) as a requisite for obtaining approval of refinery equipment in 1970, the oil embargo had an enormous psychological impact on policymakers and the public.

The immediate response was to dispatch a delegation headed by Deputy Prime Minister Takeo Miki to appease the Organization of Arab Petroleum Exporting Countries (OAPEC) and shift Japan's foreign policy posture from neutral to pro-Arab. Japan was reclassified by OAPEC as a friendly country in January, 1974.

The following month, Japan participated in the Washington Conference convened by the United States and became a member of the International Energy Program

⁶Gendai Gijutsu-shi Kenkyukai (Modern Technology Study Group), *Energi Mondai* (Energy Problems) (Tokyo: Shankai Hyoron-sha, 1984), p. 159; Kitada, op cit., p. 110.

(IEP). The IEP agreement provided for a goal of a 90-day oil stockpile for 1980. In October, 1974, MITI drafted a plan to achieve this goal between 1975 and 1980, and it enacted the Oil Stockpile Act in 1975. In 1981, the refinery companies achieved this goal, but argued that oil stockpiles beyond running stock should be a government responsibility because they concerned national security. In fact, Japan is the only country that obligates the private sector to maintain a 90-day oil stockpile.

The Comprehensive Energy Council reexamined the energy policy and concluded in its report in August, 1975, that "the new situation no longer permits us to pursue the three goals of abundance, low cost and stability—the oil policy of the high economic growth period. We have to choose stability as the priority goal." To achieve this goal, the report called for reduction of dependency on oil and diversification of nonoil energy supplies; securing a stable oil supply; energy conservation; and research and development of new energy sources. To stabilize the oil supply, it emphasized the importance of shifting from dependence on oil majors to direct deals and government-to-government deals, which would be promoted through active participation in oil development and economic cooperation.

The report also defined energy conservation as "the means to achieve more effective use of energy without affecting economic performance, living standards, environment and safety" and regarded conservation as the best way to increase energy security free from international events. A variety of financial aids were introduced to increase energy efficiency and conservation, including low-interest Japan Development Bank loans for the installation of energy-saving equipment in factories, and special financing for the insulation of residential building. Tax deductions and special depreciation have been extended to energy-saving equipment. Japan's energy conservation has been generally regarded as a success among the industrial countries.

The second oil crisis precipitated by the Iranian Revolution in 1979 was followed by the confirmation of the shared interest among the oil-consuming countries in reducing the demand for oil to stabilize the world oil market. They shared the goals of increasing control over energy sources and energy supply reliability. After the first energy crisis, Japan's oil consumption decreased for two years, but in 1979 it increased to approach the peak-year consumption of 1973. That year, Japan accounted for 10 percent of the total energy consumption of the 24 members of the Organization for Economic Cooperation and Development (OECD).

The second energy crisis provided Japan's policymakers with stronger incentives to develop and introduce alternative energy sources. The far sharper price increases made the introduction of alternative and new energy sources economically feasible. Also, many Japanese oil companies not directly affiliated with the major

companies were forced to buy high-priced oil at the spot market; their panic buying helped to drive up prices further. It was not a shortage in the volume of oil supply, but price increases and their disruptive impact that most concerned the Japanese government and private industry.⁷

Thus, renewed emphasis was placed on alternative energy and new energy sources. The government already had started the Sunshine project in 1974, which was an extensive, long-term technological development program to develop clean, alternative energy sources—solar, geothermal, coal and hydrogen energy—for Japan's basic energy. The Moonlight project was founded in 1978 to develop large-scale, basic technologies for energy conservation and energy-saving technologies for devices used in the household and commercial sectors.⁸

In May, 1980, the government enacted and implemented an "Act to Promote Development and Introduction of Alternative Energy to Oil," commonly known as the Alternative Energy Act. Research and development of alternative energy sources was estimated to cost some Y3 trillion through 1990 and secured long-term funding from an "electric power sources development promotion tax" and an "oil policy special account."

The Alternative Energy Act makes the government responsible for setting long-term supply targets for alternative energies like coal and nuclear power and new energy or renewable energy sources; advising industry to introduce alternative energies; and providing budgetary, financial and tax incentives to promote energy conservation efforts. In October, 1980, the New Energy Development Organization (NEDO) was established to develop large-scale alternative energy projects.

Industry, which accounts for nearly 60 percent of Japan's energy consumption, continued to introduce energy-saving technology. In addition, significant energy conservation was gained through the economic structural change away from energy-intensive industries to an increasing concentration on low-energy, high-technology sectors like integrated circuits and computers. Petrochemicals, textiles and the traditional "metal

⁷Ronald Morse, "Japanese Energy Policy," in Wilfrid L. Kohl, ed., *After the Second Oil Crisis* (Lexington, Mass.: Lexington Books, 1982), p. 261.

⁸Masao Sakisaka, "Energy Alternatives: Present State and Future Problems," *Journal of Japanese Trade and Industry* (November-December, 1983), pp. 25-29; Morse, *Politics*, p. 10.

⁹Don Hedley, *World Energy: The Facts and the Future* (London: Euromonitor Publications, 1986), p. 261.

¹⁰International Energy Agency, *Energy Policies and Programs of the IEA Countries: 1986 Review* (Paris: Organization for Economic Cooperation and Development, 1987), p. 261.

¹¹In 1973, imported oil accounted for 77.6 percent of Japan's energy needs, of which 80 percent came from the Middle East; in 1986, imported oil supplied 56 percent of the Japanese energy demand and Middle East oil imports were 60 percent of total oil imports. Natural Resource and Energy Agency, *Long-Term Energy Supply and Demand* (Tokyo: Ministry of International Trade and Industry, October 14, 1987), p. 10.

¹²*Asahi Evening News* (Tokyo), December 7, 1987.

bashing" and smokestack industries contracted in the face of higher energy and other raw material costs and competition from the developing countries.⁹

As a result of these efforts, Japan's energy demand growth rate declined from some 11 percent before 1973 to only about 3 percent annually after the first oil crisis. Between 1979 and 1983, energy consumption in Japan fell by 8 percent and oil consumption by 20 percent, while Japan's economy grew at some 3 percent per year. Japan's energy consumption per unit of the gross national product (GNP) declined to some 70 percent of its 1973 level in 1983-1984, and then to 68.5 percent in 1985. The largest decline was recorded in industry.¹⁰ Japan also reduced its dependence on Middle East oil from 62 percent of its total energy needs in 1973 to 34 percent in 1986. Still, Japan is the second largest consumer of energy in the world after the United States; it still depends on imports for 87 percent of its primary energy, as compared with 20.6 percent for the United States, 57.7 percent for West Germany, 80.3 percent for France and 9.3 percent for the United Kingdom.¹¹

OIL GLUT AND ENERGY PROBLEMS

After the second oil crisis, particularly after the December, 1985, OPEC (Organization of Petroleum Exporting Countries) general meeting, the oil situation changed drastically. The demand-supply situation eased and the crude oil price declined from \$28 per barrel in the first half of fiscal year 1985 to \$12.50 per barrel one year later. In the summer of 1986, almost all spot prices dropped below \$10 per barrel. The immediate cause of the glut was OPEC's failure to agree on production quotas. The oil glut was also a result of the shrinking demand for oil caused by the deliberate policies of industrialized consumer countries to reduce dependence on Middle East oil, combined with the increased production of non-OPEC oil stimulated by higher oil prices after the second oil crisis. After OPEC agreed to reduce production, oil prices rose to around \$18 per barrel. However, serious divisions are reported among OPEC members, particularly between Iran and Saudi Arabia, about the 1988 price and production levels.¹²

Japan's response to the lower oil prices has been characterized by caution in anticipation of a tighter oil market and a greater dependency on Middle East oil in the 1990's. MITI continues to promote the Japanese development of oil, energy conservation and a shift to alternative energies. Concessional financing has been used to promote investment in energy-saving technology and public information activities.

By 1986, only 11 percent of oil imports were derived
(Continued on page 182)

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"Virtually all commentators refer to [Prime Minister Noboru Takeshita's] consensus-building style and horse-trading skills. . . . These qualities make a more effective Japanese Prime Minister. . . . If so, Takeshita may be better able to accomplish his policy goals than most of us are willing to bet. . . ."

Japan's Takeshita at the Helm

BY HARUHIRO FUKUI

Professor of Political Science, University of California, Santa Barbara

THE Japanese are great institution-builders, like the Imperial Chinese from whom they learned much of their statecraft. And like their predecessors of the earlier decades, described by Chalmers Johnson,¹ the contemporary leaders of the Liberal Democratic party (LDP) are faithful and skillful practitioners of that traditional craft. They invent or borrow from others, adapt, refine, formalize and play by intricate sets of rules, but never so rigidly that the rules obstruct rather than facilitate the achievement of their objectives.

"Adaptation" is the key word, and that means changing the rules whenever the need arises, as the LDP has changed its formal rules on the election of the party's president and, de facto, Japan's Prime Minister. According to a recent study, the formal rules were changed no less than seven times in the first 30 years of the party's existence (1955-1985), nearly as frequently as every second party president was elected during the 1970's.²

Institutionalization makes behavior predictable, to the extent that the behavior of any individual human being or social institution can be predictable. It was thus possible to predict, with an allowance for an ample margin of error, the election of Noboru Takeshita as Prime Minister. He had been Yasuhiro Nakasone's immediate successor for three and one-half years before the event.³ Nonetheless, the adaptability of the LDP's rules makes any particular outcome of the game far from a foregone conclusion.

¹Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford: Stanford University Press, 1982).

²Zenichiro Tanaka, "Jiyuminshuto no toshu senshutsu tetsuzuki ruru to habatsu kenryoku," in *Nihon seiji gakkai*, ed., *Gendai nihon no seiji tetsuzuki* (*Nempo seijigaku* 1985) (Tokyo: Iwanami shoten, 1986), p. 2.

³Haruhiro Fukui, "The Liberal Democratic Party Revisited: Continuity and Change in the Party's Structure and Performance," *The Journal of Japanese Studies*, Summer, 1984, pp. 385-435.

⁴See Tanaka, "Jiyuminshuto no toshu senshutsu tetsuzuki."

⁵See "An-Take-Miya no jinmyaku kinmyaku deta," *Seikai orai*, September, 1987, p. 41.

⁶See Takuya Yanagawa, "Abe kaicho ni kiku," *Seikai orai*, September, 1987, pp. 65-67; Taro Seikai [pseudonym], "Kyuten chokka no seiken resu," *ibid.*, p. 92.

Over the years, two important rules have governed the election of an LDP president cum Prime Minister. One rule is that the effective electorate consists neither of the rank-and-file party membership nor of individual LDP members of the National Diet (legislature) but members of the intraparty factions of those Diet members.⁴ The second rule is that among competing candidates, each with the support of his own and other sympathetic factions, the candidate with the strongest track record (defined as the number and kind of important Cabinet, Diet, and party posts he has previously held) should win. Under these two rules, the result of the competition among the three candidates for succession to Nakasone in the fall of 1987 was predictable. Among the three competing candidates—Finance Minister Kiichi Miyazawa, LDP general council Chairman Shintaro Abe, and LDP secretary general Takeshita—the latter was clearly well ahead of his two rivals.

By the summer of 1987 the Takeshita faction (originally formed in early 1985 by some 40 members of the then 141-member strong LDP faction led by the ailing former Prime Minister Kakuei Tanaka) had become independent and the largest faction in the party. By mid-October, when Nakasone's tenure officially ended, Takeshita's group boasted a membership of 114 Diet members, as compared to Miyazawa's faction with 89 and Abe's with 87.⁵ On its own, the Takeshita faction did not come even close to controlling the majority of the votes held by the 446 LDP Diet members that it would need to win the succession battle. By mid-August, however, Takeshita and Abe had reached an understanding to the effect that, no matter who might win, neither would allow his faction members to support Miyazawa.⁶ This understanding would give Takeshita 85 additional votes, bringing his total to 199, which was only 24 votes short of a simple majority. Shortly thereafter, with 32 votes under his control, Toshio Komoto joined the Takeshita-Abe alliance, boosting Takeshita's potential support to 8 votes more than the simple majority.

As far as their relative track records were concerned, Takeshita's was the best, Abe's the second, and Miyazawa's the worst. By the fall of 1987, Takeshita had served in important Cabinet, Diet, and party positions

Table 1: Prime Minister and Cabinets (1972-1987)

| PM | Cabinets (Reference) | Period |
|-------------------|--------------------------------|-------------|
| Kakuei Tanaka | 1st Tanaka (T-1) | 07/72-12/72 |
| | 2nd Tanaka (T-2) | 12/72-12/74 |
| Takeo Miki | 1st Miki (M-1) | 12/74-09/76 |
| | 2nd Miki (M-2) | 09/76-12/76 |
| Takeo Fukuda | 1st Fukuda (F-1) | 12/76-11/77 |
| | 2nd Fukuda (F-2) | 11/77-12/78 |
| Masayoshi Ohira | 1st Ohira (O-1) | 12/78-11/79 |
| | 2nd Ohira (O-2) | 11/79-07/80 |
| Zenko Suzuki | 1st Suzuki (S-1) | 07/80-11/81 |
| | 2nd Suzuki (S-2) | 11/81-11/82 |
| Yasuhiro Nakasone | 1st Nakasone (N-1) | 11/82-11/84 |
| | 2nd Nakasone (N-2) | 11/84-12/85 |
| | 2nd Nakasone re-formed (N-2.5) | 12/85-11/87 |
| | 3rd Nakasone (N-3) | 12/85-11/87 |

more frequently than either Abe or Miyazawa, and Abe had served more frequently than Miyazawa, although their overall records were similar.⁷ It was thus consistent with well-established practice for Takeshita to be chosen as the new LDP president and Prime Minister.

In the event, however, Takeshita was not elected Nakasone's successor by vote but was appointed by Nakasone, a procedure neither entirely unprecedented nor inconsistent with the current official party rules, but unusual all the same.⁸ This led a number of observers, including many Japanese journalists and scholars, to believe that Nakasone acted as a "king-maker" in choosing Takeshita, as if he could have chosen either Abe or Miyazawa instead.⁹ In light of the balance of power and advantage among the three candidates, however, the observation appears to have been wide of the mark and based on a gross overestimation of Nakasone's personal power. The power of the institution was far more compelling and left little room for genuinely free choice by the lame-duck LDP leader.

CABINET FORMATION

In appointing members of his Cabinet in the first week of November, Takeshita also followed several well-established rules of the game. Any discussion of the rules governing the distribution of Cabinet posts

⁷See Fukui, "The Liberal Democratic Party Revisited," pp. 423-426. Between December, 1983 (as of which date the data used in this article were current), and November, 1987, Takeshita had served consecutively as finance minister and LDP secretary general, Abe as foreign minister and LDP general council chairman, and Miyazawa as LDP general council chairman and finance minister.

⁸Only once in the LDP's history, in December, 1974, was a somewhat similar procedure followed, when Takeo Miki was appointed Kakuei Tanaka's successor by a party elder.

⁹See, for example, Takao Iwami, "Kamisama ichinin no ijo na ketchaku," *Ekonomisuto*, November 3, 1987, p. 54; Narinori Kishii, "Naze shinsosai wa shusho saitei de erabareta ka," *ibid.*, pp. 52-53; Tetsuro Murobushi, "Kiken na aryu Nakatakegata kinken seiji shuho no honshitsu," *Gekkan shakaito*, December, 1987, p. 67.

among individual LDP Diet members and factions is necessarily incomplete because it does not consider the impact of the distribution of Diet and party posts. The distribution of the three types of post is closely coordinated and a more complete discussion would weigh the impact of each post on another.¹ Refer to table 1 for the names of Prime Ministers and the designators of Cabinets.

All 14 Cabinets included the posts of the ministers of Justice (MOJ), Foreign Affairs (MFA), Finance (MOF), Education (MOE), Health and Welfare (MHW), Agriculture, Forestry and Fisheries (MAFF), International Trade and Industry (MITI), Transport (MOT), Posts and Telecommunications (MPT), Labor (MOL), Construction (MOC), and Home Affairs (MOH); Chief Cabinet Secretary (CCS); the directors-general of Defense (DA), Economic Planning (EPA), Science and Technology (STA), and Environment (EA) agencies. Deputy Prime Minister (DPM) was an optional post and was occasionally filled at the Prime Minister's discretion. The Office of the Prime Minister (OPM) and the Administrative Management Agency (AMA) existed separately until 1984, when they were merged to become the Management and Coordination Agency (MCA); and the National Land Agency (NLA) was created in 1974.

In the period between December, 1972, when T-2 was formed, and December, 1976, when F-1 was formed, there were nine factions led, respectively, by Tanaka, Fukuda, Ohira, Miki, Nakasone, Etsusaburo Shina, Mikio Mizuta, Naka Funada, and Mitsujiro Ishii. By December, 1977, however, the last mentioned four smallest factions merged into a leaderless grouping, which then disappeared by December, 1979, when O-2 was formed. For a few years between 1980 and 1983, a new sixth faction was led by Ichiro Nakagawa. In the meantime, the leadership of the Ohira faction passed to Zenko Suzuki and that of the Miki faction to Toshio Komoto in 1980, and that of the Fukuda faction to Shin-taro Abe in 1986. Finally, in July, 1987, the Tanaka faction split into three groups; the first and by far the largest was led by Noboru Takeshita, the second by Susumu Nikaido, and the third was leaderless.

There are five rules that govern the philosophy of Cabinet appointments in Japanese politics.

Rule 1: The 20 (21 in Takeo Miki's two Cabinets) Cabinet posts, excluding that of the Prime Minister, should be distributed among all LDP factions and the quasi-factional group of those not affiliated with any faction (independents), normally in proportion to their relative numerical sizes, but with a bonus routinely claimed by the presidential faction.

Since 1972, 14 Cabinets had been formed by Takeshita's six immediate predecessors. In all but one (T-2), every faction and the quasi-faction of independents were allocated at least one slot. In none, however, was the distribution entirely proportional to the relative sizes of

the several factions and the quasi-faction. In all but two (F-1, S-2), the presidential faction took one or more extra slots at the expense of others, almost always including the quasi-faction. If we define a percentage share of the Cabinet posts given to a faction that is equal to that faction's percentage share of the current LDP Diet membership as representationally fair, the presidential faction was thus almost always overrepresented, while independents were almost always underrepresented.

The fortunes of nonpresidential factions in each Cabinet varied, depending on their specific relationships with the presidential faction. In T-1 and T-2, Tanaka claimed very large bonuses for his own faction and severely punished his archrival, Takeo Fukuda, and his faction; in F-1, Fukuda fully retaliated. The Masayoshi Ohira-Zenko Suzuki faction was generally overrepresented in the earlier Cabinets, but suffered moderate degrees of underrepresentation in the four Nakasone Cabinets; on the other hand, the Nakasone faction, led by the great weather vane of postwar Japanese politics,¹⁰ was overrepresented in all but two Cabinets (M-1, S-1), even though in N-1 and, especially, in N-3, Nakasone granted a generous share of posts to the Tanaka faction, whose support had put him into power in the first place and kept him there; and, finally, all the minor factions, including Ichiro Nakagawa's, generally fared well while they existed.

When Takeshita formed his Cabinet in early November, 1987, the 446 LDP Diet members were distributed among the six factions as follows: Takeshita, 117; Miyazawa, 89; Nakasone, 87; Abe, 85; Komoto, 32; Nikaido, 19; and independents, 17. Takeshita gave five posts to his own faction, five, including two held concurrently by the same individual, to Miyazawa, four to Abe, four to Nakasone, two to Komoto, and one to independents. This distribution was consistent and fair in terms of the well-established norm.

Rule 2: Cabinet posts should be divided between LDP members of the House of Representatives and those of the House of Councillors. Normally, all but a few, including those regarded as the most important posts and reserved for veterans (see *Rule 3*), should go to the former and the few that go to the latter should be relatively minor posts.

In 7 of the 14 Cabinets, upper house members were given 3 posts, in 1 they were given 4, and in the remaining 6 they were given only 2. In 2 of the 6 Cabinets mentioned last, however, a third post was filled by a person without a Diet seat. In none of the 14 Cabinets was an upper house member ever given the post of DPM, MOF, MITI, MAFF, MOC, CCS or EPA, and only once given either MFA or MOE. On the other hand, the posts of MOJ, MOL, MOH, OPM, STA, and EA were filled with upper house members 3 times or more.

¹⁰For my earlier comments on the subject, see Haruhiro Fukui, "Japan's Nakasone Government," *Current History*, November, 1983, pp. 380-381.

Incidentally, in the earlier Cabinets, most of the upper house appointees were former higher civil servants, such as MOH Minister Yuichi Kori (former prefectural governor) and MHW Minister Shunji Shiomi (former MOF official) in T-1. In fact, all the five upper house members appointed in T-1, T-2, M-1 and M-2 were ex-bureaucrats. In more recent Cabinets, however, bureaucrats ceased to monopolize the few posts allocated to upper house members.

Takeshita appointed 17 LDP members of the House of Representatives and three House of Councillors members to his Cabinet. The latter were given the MOJ, MOL, and EA portfolios and only the first was a former bureaucrat. His practice was thus obviously consistent with *Rule 2*.

Rule 3: Cabinet posts should be shared by both those who have already served in previous Cabinets ("veterans") and those who have never done so ("first-timers") in such a way that the Cabinet's collective effectiveness is enhanced by the inclusion of a sufficient number of experienced and tested veterans and, at the same time, harmony and cooperative spirit is enhanced both in the Cabinet and within each faction by the inclusion of a reasonable number of those eagerly waiting for their turn to serve for the first time in highly visible Cabinet posts.

In the first 10 of the 14 Cabinets under consideration, with the exception of O-1 and O-2, veteran ministers were in the majority and first-timers were in the minority, but in the four Nakasone Cabinets the ratios were reversed.

The distribution of Cabinet posts among veterans and first-timers was never random but was always carefully planned. Several posts were always, or nearly always, filled by veterans, while others were regularly reserved for first-timers. DPM's were always veterans, and so were nearly all (93 percent) of MITI and more than three-fourths of MFA and MOF ministers, CCS, and EPA directors-general. On the other hand, nearly all (95 percent) of the MPT and three-fourths or more of the MOL ministers and the EA, STA and NLA directors-general were first-timers, and so were the majority of the MOE, MHW, MOC, and MOH ministers.

Takeshita appointed 9 veterans and 11 first-timers. He gave the DPM, MITI, MFA, MOF, and CCS posts to veterans, and the MPT, MOL, and EA slots to first-timers, while choosing to give one of those normally reserved for a veteran (EPA) to a first-timer and two of those normally given to first-timers (STA, NLA) to veterans.

(Continued on page 185)

Haruhiro Fukui is the editor-in-chief of *Political Parties of Asia and the Pacific*, 2 vols. (Westport, Connecticut: Greenwood Press, 1985), and coeditor of *Japan and the World: Essays on Japanese History and Politics* (London: Macmillan Press; and New York: St. Martin's Press, 1988).

BOOK REVIEWS

ON JAPAN

THE JAPANESE TODAY: CONTINUITY AND CHANGE. By *Edwin O. Reischauer*. (Cambridge, Mass.: Harvard University Press, 1988. 426 pages, list of suggested readings and index, \$25.00, paper.)

In the preface to the 1981 edition of his classic 1977 discourse on Japanese society, *The Japanese*, distinguished historian Edwin O. Reischauer commented that he felt little need to rewrite the book, given the extraordinarily stable nature of Japanese society. However, Reischauer also made the observation that "Japan's fate depends on what happens to the world economy and on the worldwide problems of war and peace."

Since 1981, the international role of Japan has become more prominent. Reischauer and the Harvard University Press felt that an update of *The Japanese* was necessary not only because of the increased international importance of Japan, but because more readers are knowledgeable about Japanese society and "their concepts of Japan are likely to be far different."

The end result is *The Japanese Today: Continuity and Change*, which is essentially a new book that has kept the original introductory historical material but contains a new section on business and a rewritten conclusion on Japan and the world.

Few Western authors on Japan have the credentials that enable Reischauer to present such a thorough picture. Born and raised in Japan, Reischauer, a university professor emeritus at Harvard, served in the State Department, was the United States ambassador to Japan from 1961 to 1966, and is the author of numerous publications on Japan and East Asia.

The first three sections of *The Japanese Today* contain a general review and survey of Japan's geography, history and society and are similar to equivalent sections in *The Japanese*. The final three sections on politics, business and Japan's global role elaborate the concepts that were originally presented in *The Japanese*. The new section on business is indispensable, presenting a concise history of Japan's economy and an overview of the Japanese systems of employment and business organization. The concluding section, which stresses the problems of neutrality versus alignment, trade and economic dependence, the language barrier and the unique character of Japanese society, successfully puts into perspective Japan's role in the global community.

The biggest error one could make would be to forgo reading *The Japanese Today: Continuity and Change* under the mistaken impression that it is just a new edition of

The Japanese. With its new and updated illustrations, its new section on Japanese business and its enlightened observations on the future of Japan, *The Japanese Today* stands on its own as a companion piece to *The Japanese* and as a work that will help Westerners understand the Japanese.

R. Scott Bomboy

THE STATE AND LABOR IN MODERN JAPAN.

By *Sheldon Garon*. (Berkeley and Los Angeles: University of California Press, 1987. 326 pages, appendixes, notes, bibliography and index, \$35.00, cloth.)

In *The State and Labor in Modern Japan*, Sheldon Garon elaborates on the foundation of the modern Japanese labor-government relationship in the years from 1868 to 1945. Despite the publisher's claim that the book examines the growth of government policies toward labor from the early industrialization period to the present, the bulk of the material draws on data from and makes observations about the pre-1945 era; the epilogue, however, does contain some coverage of the postwar development of labor unions.

The value of *The State and Labor in Modern Japan* lies in its detailed analysis of the prewar labor environment in Japan. Garon extensively documents his sources, and the tables and appendixes he presents to buttress his conclusions are informative. Overall, *The State and Labor in Modern Japan* will appeal to those with a direct interest in the history of Japanese politics, labor movements and social development.

R.S.B.

A CULTURAL HISTORY OF POSTWAR JAPAN: 1945-1980. By *Shunsuke Tsurumi*. (New York: Methuen Inc., Routledge and Kegan Paul, 1987. 174 pages, list of references and index, \$45.00, cloth.)

A Cultural History of Postwar Japan, which was published originally in Japanese by Iwanami Shoten in 1984, combines the author's philosophical analysis of postwar Japanese culture with a plethora of photographs and illustrations that underline Tsurumi's opinions about the changes that have taken place in Japanese society since the Allied occupation (1945-1952).

The text, which is drawn from a series of lectures presented by the author at McGill University, tells the story of the changes that began in the occupation era and reviews the way these changes were reflected in popular entertainment media like comics (*manga*), vaudeville (*manzai*), popular songs and common culture (literature, television, theatre and film). Tsurumi also devotes a chapter to debunking myths that are presented in Western guidebooks on Japan.

R.S.B.

LABOR CONFEDERATION

(Continued from page 164)

becomes the basic constituent of a national center. The "sovereign" units of Rengo are the industry federations of enterprise unions. In the conventional relationship between enterprise unions and industry federations, the former are more powerful than the latter.

But the traditional power relationship between "basic" and "higher" labor organizations began to change after the first Oil Shock. There was an increase in the influence of the industry federation over the collective bargaining activities of its enterprise-level affiliates. In December, 1976, the *Economist* (London) observed that "[industry] federations, which previously did not count for much, are gradually increasing their power at the expense of both the company-based union leadership and the nationwide confederations." Now that these nationwide confederations have been consolidated (though only in part so far) into Rengo, the power relationship between Rengo and industry federations will no doubt be redefined. The organizational logic of corporatism demands that power be concentrated in the peak organization.

A NEW STYLE OF LABOR MOVEMENT

TUCPP and Zenmin Rokyo carried out extensive research into the living conditions of worker households through their constituent unions.¹² Rengo has established a new think tank to strengthen research. A major theme in labor's view of Japanese economic problems arising from its own research is the inconsistency between Japan's world-class industrial efficiency and its illusory "middle-class" standard of living. Japan's gross national product (GNP) per capita in United States dollars (converted by the current exchange rate between the yen and the dollar) appears to have caught up with GNP per capita in the United States. But Japan's standard of living, evaluated by the purchasing-power parity of the yen and the dollar, still stands far below that of the United States—about 70 percent of the United States level.

This anomaly is of course widely understood in Japan. It has been translated into various scenarios to arrive at its policy implications. Labor's script directs attention to the cost of living and the inadequacy of income to meet it. Despite the acclaimed efficiency of Japanese industry, life in Japan is seen to lack the leisure and comfort that workers can enjoy in the United States. Working overtime is unavoidable, and it is difficult to shorten hours of work. The principal earner's regular wages alone cannot cover the household's cost of living. Even two-income families need bonuses.

Although the government's public opinion surveys

¹²See the Zenmin Rokyo publication, *Middle Class Life without Elbow Room* (Tokyo: Zenmin Rokyo, 1985).

¹³See idem., *Wishing for Well-being and Elbow Room* (Tokyo: Zenmin Rokyo, 1987).

show that 90 percent of all Japanese households claim to be "middle class," the surveys of Zenmin Rokyo indicate that the life of nearly 40 percent of worker households is "life without elbow room" (*yutorinaki seikatsu*), hardly fitting the image of "middle class." Fifty percent of the high cost of living is due to three factors: taxes (including social security contributions), housing and land, and children's education. The policy implications of this are obvious.

Internal solidarity and discipline are indispensable for an effective labor movement. The conventional ethos that has bound workers together is dominated by feelings of unrelieved grievances, resentments of the rich and the powerful, cynical resignation to exploitation and hopelessness, and other such dark images. In affluent societies, the labor movement has not overcome the depressing rhetoric of its dark past. Today, the inherited stuffy language of the labor movement fails to attract young men and women to the movement. Zenmin Rokyo and Rengo consciously emphasize the need for a revolution in attitude.

Zenmin Rokyo and Rengo know the power of images and words. Their publications are written in today's language (not that of Marx or Lenin), illustrated by colored graphs and pictures, bound and covered in attractive designs. The motto of Rengo is "cheerful and soft" (not bitter and hard as in the old days). Rengo's favorite color is light blue (not flaming red). Its anthem is "Looking for Happiness," sung in a melody resembling a folk song (not a revolutionary march). Internationally, Rengo will join the ICFTU (International Confederation of Free Trade Unions).

Only the Communists find Rengo's new style offensive. All political parties (except the Communist party) welcome Rengo and express a willingness to work with the organization. Indeed, Rengo may touch off new political chemistry. For the opposition parties, Rengo means an end to the traditional party-union relationships, when Sohyo supported the Japan Socialist party (JSP) and Domei, the Democratic Socialist party (DSP). Another opposition party, Komeito, with its power base in a Buddhist sect and the lower middle class self-employed, shares a reformist orientation with organized labor. (Komeito is generally translated as "Clean Government party." The party's name apparently implies an indictment of the government in power.)

A stronger message from the unified labor movement to the opposition parties is that they should also unite. Interparty cooperation among JSP, DSP, and Komeito (the "Sha-Ko-Min coalition") has barely moved beyond the talking stage.¹³

Rengo's stated policy with respect to party relationships is to leave the matter to the decision of each constituent federation of unions. In promoting labor's policy agenda, Rengo will continue Zenmin Rokyo's multidirectional bilateral contacts. This implies that Rengo will work with all relevant groups, parties, organizations and

bureaus. Now that it is regarded as a friendly organization by the ruling Conservative party, LDP, which for its own political reasons is trying to spread its wings more widely, Rengo may find it especially useful to promote labor's policy proposals through LDP. Rengo's political eclecticism, favorably interpreted, may imply organized labor's discovery of its own autonomy and its determination to carve out, to defend and to promote its proper realm of aspirations and interests.

Finally, it should not be forgotten that Rengo is a trade union confederation deriving its strength from how well it promotes trade union activities in industries, firms and regions. Participation in national policy-making and maneuvering within the existing configurations of political power aim to bring about a macroeconomic environment that will ensure a respectable bargaining position for the worker in the workplace. In turn, union success in securing equitable and satisfying terms of employment contributes to union growth. The rate of unionization of Japanese workers has been declining in recent years (28.2 percent in 1986 as against 34.4 percent in 1975). Whether Rengo can reverse this unwelcome trend remains to be seen. ■

THE JAPANESE ECONOMY

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than the aging process in the United States or West Europe. It is possible that, sooner than most people realize, this process will reduce Japan's propensity to save and increase its propensity to consume; thereafter, the rising level of imports together with the decline of exports will naturally correct the problem of external imbalance.

The Japanese trade surplus and the United States twin deficits (federal and trade) are causatively linked. The United States federal deficit retards private capital formation, which adds to the declining competitiveness of American goods; the same deficit, which causes high interest rates, keeps the dollar's value high; this, in turn, raises the cost of American exports. The United States import surplus, which results from the federal deficit, is a mirror image of Japan's export surplus. Reduction of the United States federal deficit, now under way under the deficit reduction act passed by Congress in 1985, will lead to a decrease in the American import surplus and hence in Japan's export surplus, inasmuch as Japan's net exports to the United States account for about one-half the total United States deficit.

The current global economic disequilibria may not invite a self-destructive spread of protectionism of the sort that aggravated the world depression in the 1930's. There is now a growing recognition among the educated

¹⁰To illustrate, when American firms directly investing in Japan ship their parts, components and products to the United States as part of their global strategy, they will appear in statistics as "Japanese exports" to the United States. Absurd as it is, one way the Japanese government could reduce exports to the United States would be to prohibit American companies in Japan from shipping their goods to the United States.

public that in age of multinational business, protectionism will hurt both business and consumers, and that it is an anachronism to speak of the "nationality origin" of products or of "balance of trade," a concept that might have been useful in the eighteenth century, when there was little international factor mobility.¹⁰

Granted the fact that the problem of global imbalance will be corrected sooner or later, today the world economy is in a state precarious enough not to permit an unguarded optimism. There is an overhang of \$800 billion in the external debts of the developing countries that can, through defaults, touch off crises in the international monetary system. The longest postwar boom of the American economy, still continuing in 1988, rests on a fragile foundation of borrowings by the government, business and consumers, a process that cannot be sustained too long.

Reducing the United States federal deficit amounts to a contractionary fiscal policy that must be accompanied by an expansionary monetary policy to avoid a recession. At present, the United States Federal Reserve Board faces the almost impossible task of setting interest rates at the optimal level. If rates are raised to prevent inflation, this may cause a recession and an unwanted appreciation of the dollar. If rates are set low to avoid a recession, the policy may rekindle inflation and stimulate further devaluations of the dollar. The latter effect could induce a free-fall of the dollar as the world's confidence in the currency is shaken, with consequent international financial debacles. The dollar's free-fall would trigger an accelerated revaluation of the yen, which would plunge the Japanese economy into a deep recession.

The major wave of internationalization now hitting Japan is the third in the last 100 years. The first wave arrived in the late nineteenth century, when Western powers demanded the opening of Japan to the outside world. Japan chose to modernize its internal political, legal and economic institutions after the Western models to avoid the fate of being colonized by a foreign power. The second wave came after World War II when Japan, a defeated and occupied nation, had to swallow massive doses of American civilization and culture.

The current wave is of Japan's own making. Japan's economy has grown phenomenally, but its economic success has become a major source of world economic instability. Today, Japan faces the urgent task of transforming the pattern of its economic activity, its internal economic system and its policy structure. How successfully Japan will ride the third wave of internationalization and cope with its impact for its own benefit and for that of the world remains to be seen. ■

SINO-JAPANESE RELATIONS

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panese trade increased from \$5.1 billion in 1978 to \$10.4 billion in 1981. However, because of China's financial difficulties, Beijing was compelled to scale down its

modernization programs. This development inevitably had dampening effects on Sino-Japanese trade. In 1982, the two-way trade dropped to \$8.9 billion, from \$10.4 billion in 1981. After recovering to \$10 billion in 1983, the volume of two-way trade increased to \$13.1 billion in 1984 and \$18.9 billion in 1985.

A large increase in China's purchases of cars and color television sets was the main factor behind a 73 percent rise in the overall value of Japanese exports to China in 1985; the total amount was over \$12.4 billion. Since Chinese exports to Japan amounted to about \$6.5 billion in 1985, China incurred a trade deficit of \$5.9 billion. Disturbed by the trade deficit, Deng Xiaoping told a delegation of Japanese business executives in December, 1985, that China might tolerate such a deficit "for one year, or even two," but definitely not for longer.

To reduce the trade deficit, China imposed severe import controls in 1986 to curtail the importation of Japanese cars by 92 percent and Japanese television sets by 86 percent. As a result, Japan's exports to China fell by 21 percent to \$9.9 billion in 1986, while its importation of Chinese products decreased by 12.4 percent to \$5.6 billion. Reflecting these changes, in 1986 the two-way trade between China and Japan totaled around \$15.5 billion; and China's trade deficit with Japan stood at \$4.2 billion.¹⁹

Several factors have contributed to the persisting trade imbalance. First, China's current pattern of exporting raw materials to Japan in exchange for imports of manufactured goods has generated a trade imbalance for China. For example, in 1986, crude oil, coal and mineral products accounted for 32.5 percent of Chinese exports to Japan. Meat, fish, vegetables, fruits and other agricultural products constituted 32.2 percent of total Chinese exports, and textile materials and garments accounted for 34.7 percent of total Chinese exports to Japan.²⁰

On the opposite side of the ledger, of the \$9.9 billion in Chinese imports from Japan in 1986, the largest category (50.5 percent) consisted of industrial machinery and electrical equipment (\$4.979 billion). The second largest import category (30.4 percent) included steel and steel products (\$3 billion), including 9.6 million tons of steel. Other major imports from Japan included chemical products (8.3 percent) and textile products (4.5 percent).²¹

Second, to exacerbate the situation, there was a sharp decline in the crude oil price from \$26 per barrel in 1985 to about \$13 per barrel in 1986. As a result, Chinese earnings on oil exports to Japan dropped by nearly 46 percent, from \$2.2 billion in 1985 to \$1.2 billion in 1986, al-

¹⁹Ibid., pp. 2-4, 69-72, and 81. See also Charles Smith, "Sanity Returns After the Big Buying Spree," *FEER*, March 19, 1987, pp. 67-68.

²⁰Nitchu Keizai Kyokai, op. cit., p. 72.

²¹Ibid., p. 69.

²²Ibid., pp. 70 and 336.

²³Ibid., pp. 73-79.

though China exported slightly more oil in 1986 than in 1985.²² Declines in the price of other raw materials (e.g., cotton) also adversely affected China's earnings through exports in 1986.

Third, the appreciation of the yen vis-à-vis the dollar also had an unfavorable impact on Sino-Japanese relations, because the purchase of Japanese products became more expensive. In order to rectify the situation, China demanded that Japan encourage more Chinese imports by lowering trade barriers like quotas, tariffs and other restrictive regulations. Chinese leaders also repeatedly expressed their desire for more Japanese participation in joint ventures with the Chinese, to facilitate technological transfer and industrial development.

In May, 1986, a 162-member Japanese delegation visited China to look for products that Japanese companies might be able to import. The delegation discussed various measures to increase China's exports. To help China's efforts to expand exports, Japanese firms are assisting the Chinese with product design, quality control, and modern inventory and delivery systems. This technical assistance should improve China's exports to Japan. To alleviate Chinese complaints about Japan's restrictive trade barriers, Japan has also taken steps to reduce tariffs and quotas and to liberalize its customs inspection procedures for Chinese agricultural and fishery products.²³

CONCLUSION

From this analysis, a few basic conclusions can be drawn.

First, in spite of a significant improvement in Sino-Japanese relations since 1978, China and Japan have not been able to streamline their bilateral relations. Chinese leaders are uneasy about certain developments (the Yasukuni Shrine issue, the textbook revision controversy, the abandonment of the one percent ceiling on defense spending) that they regard as moves designed to revive Japan's military role in Asia. The Japanese are unhappy about China's nagging criticism of Japan's past actions and Beijing's unwillingness to accept Japan's assurance of its peaceful and friendly intentions.

Second, Beijing is sensitive about Japan's Taiwan policy, because Japan's pursuit of a "one China, one Taiwan" policy could be detrimental to China's national aspirations to recover its sovereignty over Taiwan. Beijing is unhappy about Japan's increased investment in Taiwan, which is larger in terms of amount than its investment in China.

Third, the intensification of discord in Sino-Japanese relations is in a sense related to the resurgence of nationalism in Japan and to the highly nationalistic policies pursued by Prime Minister Nakasone from 1982 to 1987. The nationalistic tendencies in Nakasone's defense and foreign policies irritated Beijing, which does not want to see Japan reemerge as a military power. The replacement of Nakasone by Noboru Takeshita, a more

moderate leader, will probably improve relations. Takeshita has decided not to visit the Yasukuni Shrine, lest such a visit antagonize Japan's neighbors.

Fourth, in view of the complementary nature of the Japanese and Chinese economies, China's continuing need for Japanese capital and technology for its modernization, and their shared interest in containing Soviet influence in Asia, Japan and China are expected to resolve their differences and continue to strengthen their friendly relations. It remains to be seen how effectively Prime Minister Takeshita will handle bilateral problems with China. ■

RESEARCH AND DEVELOPMENT

(Continued from page 168)

five-story "high-tech incubator" near Tokyo to house about 30 small German research laboratories.¹⁷

Japanese firms have also been active in globalizing their research efforts. Kyocera, Otsuka Pharmaceuticals and others have already established research facilities in the United States; the results of a survey published in early 1987 found that nearly 100 other Japanese firms intend to do so.¹⁸ In addition, a number of Japanese firms, including Furukawa Electric, Sumitomo Electric and NEC, have hired foreign researchers for their laboratories in Japan. A survey by MITI's Agency for Industrial Science and Technology of private Japanese firms with R&D budgets of ¥1 billion or more found that these firms employed 89 researchers in 1982, an increase from the 16 researchers who had been employed in 1977.

The number of Japanese researchers assigned overseas by these firms increased from 254 to 809 over the same period.¹⁹ Several Japanese and United States firms have also initiated joint research activities. In February, 1986, Sony and Advanced Micro Devices Inc. agreed to joint development of process technologies. In 1985, LSI Logic and Toshiba agreed to develop gate arrays jointly. Boeing and three Japanese airframe makers are collaborating on the development of a new generation of commercial aircraft.

PROSPECTS

It is difficult to assess the potential effectiveness of government efforts to reform the Japanese R&D system. Most are so recent that glitches and not-yet-realized promises still seem more common than successes. The amount of money involved, so far, is not particularly impressive, and some scholars who have studied Japanese

¹⁷ *Japan Economic Journal*, November 14, 1987, and *Wall Street Journal*, November 12, 1987.

¹⁸ "Japanese Support More Academic Research in the United States," *Research Management*, vol. 30 (March/April, 1987), p. 3.

¹⁹ More recent information is not available. See MITI, op. cit., p. 184.

²⁰ A statement of this position appears in several chapters in Hugh Patrick, ed., *Japan's High Technology Industries: Lessons and Limitations of Industrial Policy* (Seattle: University of Washington Press, 1986).

government high-technology policies argue that their significance has not yet been proved.²⁰ There seems little doubt, however, that Japanese R&D is rapidly becoming internationalized. Ambitious government plans like the Frontier Research System and the Key Technology Centers are moving in this direction, and so are many firms and researchers. The flexibility this requires promises to strengthen the basic research effort in Japan. ■

JAPAN'S DEFENSE POLICY

(Continued from page 148)

carried out without going over the one percent barrier, there was no need to decide the issue at that time. But at least some Japanese observers noted that the desire to keep the ambitious Prime Minister from putting another feather in his cap was the major reason for refusing his request to do away with the one percent limit.

Nonetheless, the Cabinet approved changing the status of the MTDE to an official defense plan approved by the Cabinet. Although annual budget requests still require the approval of the Diet, the Cabinet went on record in advance as endorsing the 1986-1990 defense program. And in December, 1985, the Nakasone Cabinet approved a defense budget fully funding the first year of the 1986-1990 defense plan.

Despite the 1981 Reagan-Suzuki communiqué on a division of defense responsibilities and Prime Minister Suzuki's statement of Japan's policy goal of defending territory, air and SLOC to 1,000 miles, Japan's official policy is still the 1976 National Defense Program Outline (NDPO). The NDPO expects Japan to be able to deal with a limited and small-scale invasion on its own and to cooperate with the United States in countering a stronger attack. In the case of a nuclear threat, the NDPO specifies exclusive reliance on United States deterrent capability.

Attached to the NDPO is an annex listing the basic organizational units, e.g., ground divisions, naval flotillas and aircraft squadrons, and the main items of equipment the JSDF should maintain to constitute an effective defense, enabling Japan to cope with limited and small-scale aggression. The full levels of the annex had not yet been achieved when Prime Minister Nakasone took office, and one of the primary justifications of the 1986-1990 defense program is to achieve that required level.

Revision of the NDPO was a topic of considerable discussion in Japan, particularly in 1985. The concept of "small-scale and limited aggression" was criticized as unrealistic. The Prime Minister's ad hoc commission and the LDP defense subcommittee, which recommended review of the one percent limit, also recommended a review of the NDPO.

The defense white paper issued in August, 1986, finessed the issue. In the white paper, the constitution is interpreted to permit land, sea and air forces for self-defense purposes rather than for settling "international dis-

putes." Since 1981, the United States has maintained that, as a part of the division of defense responsibilities in United States-Japanese security arrangements, the United States provides for the protection of Japanese SLOC in the southwest Pacific and Indian Oceans, and Japan protects the territory, air and SLOC around its island territories, which include the Bonin and Okinawa island chains extending nearly to Guam and Taiwan, respectively. Similarly, the 1986 white paper stated that, without revising the NDPO, the annex could be amended by the Cabinet and the National Security Council to deal with situational changes like the technological capability of the threat facing Japan.¹⁸

Revision of the constitution or the security treaty would have profound political effects in Japan and in surrounding Asian countries. Revising the NDPO might not be so difficult, but an option to revise has been provided by the statement in the 1986 white paper that the annex can be altered.

In September, 1986, Nakasone faced the issue of Japan's position on the United States Strategic Defense Initiative (SDI). The government had been surprised by a 1985 invitation to Japan, along with other selected allies, to participate in SDI research. The media had speculated that the Prime Minister and certain Japanese companies favored participation. But public reaction was not altogether positive, and opposition parties and the liberal press were opposed. A September, 1986, Nakasone Cabinet statement was carefully worded but was still the most positive political endorsement of SDI made by any foreign government.¹⁹

That same month, the defense agency's budget request for the second year of the 1986-1990 defense plan was submitted to the MOF. By early December, it was clear that full funding would require spending slightly more than one percent of the expected GNP. A protracted discussion within the LDP and the Cabinet followed, but, on December 30, a budget that fully funded the second year and equaled 1.004 percent of GNP was adopted.

Having exceeded one percent, the Nakasone Cabinet still had to deal with the 1976 Miki Cabinet decision. There were suggestions that the wording could be changed slightly to read "about" one percent of GNP, to set a new, slightly higher limit, such as 1.1 or 1.2 percent, or to treat 1986 as a possible one-time aberration. In a January, 1987, decision with much more potential significance than the December, 1986, decision to exceed one percent for 1987 by merely .004 percent, the Cabinet

¹⁸Japan Defense Agency, *Defense of Japan 1986* (Tokyo: The Japan Times, Ltd.), p. 81.

¹⁹Unofficial MOFA translation, "Statement by the Chief Cabinet Secretary on the SDI Research Program," September 9, 1986, pp. 1-2.

²⁰When the 1987 budget was set, it was announced that the 1986-1990 defense program would not be reviewed in the third year, as had been the case with the MTDE's, but that, as with the DBP's, the 1986-1990 defense plan would be allowed to run its full course.

replaced the 1976 decision with a new decision limiting defense efforts until 1990 to ¥18.4 trillion, the amount required fully to accomplish the 1986-1990 defense plan, and limiting future defense programs by nonquantitative factors like Japan's peace-loving nature, the international situation at the time, the requirements of the economic and fiscal situation, and so on.²⁰

Because of this January, 1987, decision by the Nakasone Cabinet, future Japanese defense efforts can be based at least in theory on actual defense needs without an arbitrary barrier. Many Japanese commentators noted that the LDP factions, which had denied Prime Minister Nakasone's request to abolish the one percent barrier in 1985, agreed to the new nonquantitative barrier in 1987, so that future Prime Ministers would not be faced with such a politically difficult decision. On December 28, 1987, less than two months after Prime Minister Noboru Takeshita assumed office, his Cabinet approved a defense budget spending 1.013 percent of the GNP, fully funding the third year of the 1986-1990 defense plan. According to Japanese press reports, the negotiations between the JDA and the MOF went so smoothly that, for the first time in nine years, there was no need to appeal to party leaders and to the Prime Minister.

POST-NAKASONE DEFENSE

United States-Japanese defense relations were close before Yasuhiro Nakasone became Prime Minister, and they were even stronger at the time of his departure. During his tenure, the actual increases in defense capability have resulted from (and will come about because of) the execution of the 1986-1990 defense plan, the removal of arbitrary barriers to the continued steady growth of Japan's defense effort, the legalization of the transfer of Japanese military technology and the encouragement of the flow of commercial and military United States technology to the United States, and the commitment to find new legal ways to support United States forces that assist in the defense of Japan.

Prime Minister Noboru Takeshita's first defense budget, which was approved by his Cabinet less than two months after he took office, exceeded one percent for only the second time since 1967, yet it was accepted smoothly and quickly. Some credit for that must be given to Takeshita's well-known capacity for achieving consensus, but there is a real question whether a budget in excess of one percent for 1988 would have been thinkable without the results achieved by Nakasone in September, 1985, December, 1986, and January, 1987.

In 1988, the JDA will begin planning a defense program for the period from 1991 to 1995. Because of the January, 1987, Nakasone Cabinet decision, there will be no quantitative barrier to limit the new program. Despite the fact that the 1986-1990 program, which Prime Minister Takeshita is very likely to continue to fund fully, will provide Japan the minimum level of capability

necessary to meet Japan's defense goals, the expected level of the threat from Soviet Far Eastern forces in the 1990's is such that Japan is likely to be able to justify continued steady increases to gain a more credible capability to meet its defense goals.

The 1991-1995 program could easily give Japan an extended air defense capability with its acquisition of OTHR, a long-range airborne warning and control system (AWACS) and tanker aircraft. Badly needed air defense over the sea-lanes south and west of Japan would seem to justify acquiring a greater number of Aegis-type naval vessels, and there is even speculation that Japan will consider nuclear-powered submarines or a thru-deck cruiser as "Japan's first postwar aircraft carrier."²¹ Anti-invasion capability could be bolstered with the Multiple Launch Rocket System (MLRS), capable of delivering long-distance fire covering an area the size of six football fields, and more stand-off missiles. More robust sustainability for all Japanese forces, improvements to give the JSDF real-time command and control interoperable with United States forces, the protection of vulnerable Japanese military bases against attack by hardening shelters for aircraft, the provision of better harbor defense and the improvement of JSDF living facilities would improve readiness and efficiency.

The development of an improved United States F-16 fighter (the FSX) will certainly be included in the new defense program and promises to stimulate a potentially valuable cooperative effort between United States and Japanese aircraft industries. Reductions in funding for, or technical problems with, proposed advanced United States tactical aircraft could make FSX or the technology developed in the program extremely important as a gap filler in the late 1990's and the early twenty-first century.

None of these improvements would change the basic roles of the JSDF, but their integration into the solid base that the JDA will have in place and on order in 1990 would provide a first-class, high-technology air defense, antisubmarine and antiinvasion bulwark very close to the Soviet Union. Undetected Soviet aircraft or Soviet shipping access to the Pacific or to Japanese territory across the Sea of Japan would be severely complicated if not impossible. This Japanese capability, complemented by United States strategic and smart weapons capability,

²¹Several stories have appeared from time to time. For example, "MSDF Checking into Introduction of Nuclear Powered Submarines," *Mainichi Shimbun*, July 14, 1986; *Yomiuri Shimbun* reported the "carrier" story on January 3, 1988.

²²The Japanese government was directed to send 46 former Imperial Navy minesweepers, which had been kept active with former Japanese Navy crews to sweep mines left over from World War II, to Korea in 1950 by General MacArthur's headquarters. The United States had decommissioned its minesweepers after World War II and found itself without ships to send to Korea in 1950, as in its situation in the Persian Gulf in 1987. A description of the Japanese minesweeping in Korea is contained in James E. Auer, *The Postwar Rearmament of Japanese Maritime Forces 1945-1971* (New York: Praeger Special Studies, 1973), pp. 64-68.

presents a favorable picture for continued Pacific deterrence.

Although the Nakasone Cabinet's "Persian Gulf Package," announced one month before Nakasone left office, did not include the dispatch of Japanese mine-sweeping forces or coast guard-type vessels of the Maritime Safety Agency (MSA) to the Persian Gulf, that option was studied by Japan, and the Prime Minister expressed his view that such missions on behalf of the safe navigation of Japanese vessels are not prohibited by the constitution. There is some speculation that, if Nakasone had not been such a "lame duck" at the time, there would have been some Japanese contribution to safe navigation in the Persian Gulf, in the form of naval forces. Although there is no indication that Prime Minister Takeshita is thinking of sending defensive forces to the region, should he or a future Japanese Prime Minister desire to do so, Nakasone's statement on legality would make that action less controversial.²²

In sum, under Yasuhiro Nakasone Japan made great strides in defense capability and eliminated obstacles preventing the smooth assimilation of an effective future defense capability. Despite Prime Minister Nakasone's efforts, Japan is not and may never become an "unsinkable aircraft carrier." Its security posture has been significantly bolstered, however, and the prospects are bright for a continuation of Pacific deterrence based on United States and Japanese cooperation, with Japan playing an increasingly significant role. ■

JAPAN'S ENERGY POLICY

(Continued from page 172)

from Japanese companies. With a target of 30 percent for the year 2000 (which some analysts consider too ambitious), MITI has been encouraging exploration and development of oil by Japanese companies in overseas oil fields. It continues to provide loans through the Japan National Oil Corporation (JNOC). With the yen's rising value, however, buying oil reserves has become more economical for Japanese companies that lack the clout to compete with American or European rivals.

In December, 1985, MITI adopted a policy to liberalize imports of refined products including gasoline, kerosene and gas oil by enacting a provisional law. The integration of Japan's oil industry into the world market was also demanded by Japan's chemical industry, which was suffering from the sharp appreciation of the yen. The result has been a rapid increase in imports that has exceeded government estimates in all categories.

In the face of Japan's entry into foreign competition, another MITI goal has been to promote "structural reform in the oil industry." This entails "rationalization of oil companies, reduction of surplus refinery capacity, development of technology and measures to improve the oil distribution sector." In 1986, the Petroleum Energy Center was established to provide professional advice.

In the electricity sector, the government promotes nuclear power as the main baseload supply source (or a "semi-domestic" source of energy), with added emphasis on safety since the Chernobyl accident. Japan's total nuclear capacity in 1986 accounted for more than 27 percent of total electricity production in Japan; while oil-powered electricity accounted for less than 24 percent. The government takes the view that the generously funded public campaign about nuclear-power generation has paid off.¹³ The new five year plan published in 1987 calls for the improvement of existing types of light water reactors, the development of programs to use plutonium in thermal reactors, the introduction of the fast breeder reactor, the construction of commercial spent nuclear fuel reprocessing plants and the establishment of a radioactive waste management and disposal system to complete the fuel cycle. Nuclear energy is regarded as the alternative energy source with the most potential to enhance energy security.

Hydroelectric power, accounting for 4.2 percent of Japan's total energy supply in 1986, is the next largest indigenous energy source. The government provides research funds to standardize and develop medium- to small-size hydropower generators for mass production, and subsidizes from 5 percent to 15 percent of the construction costs for the plants and 50 percent of the costs of demonstration plants that use new technologies.

Liquefied natural gas (LNG), which is clean and easy to control, accounts for almost 10 percent of the present energy supply. It has been used increasingly in power generation in urban regions. MITI estimates that by the year 2000, gas-fired power station capacity will increase from 11 percent in 1983 to 25 percent of total electricity generation and that gas consumption will triple.

Overall, cheap oil has tended to deprive energy conservation and alternative energy development projects of their incentives by making them comparatively expensive. In 1983 and 1984, Japan's total energy demand increased, exceeding the rate predicted in the Long-Term Energy Supply and Demand Outlook. MITI succeeded in changing the oil tax from a value-based to a volume-based tax to recover the revenue lost by the yen's appreciation and lower oil prices. In exchange for higher taxes, the oil industry successfully demanded the removal of support for research and development of alternative energies from the oil tax special account in the budget plan for 1988.

PROSPECTS FOR THE FUTURE

Several characteristics of Japanese energy policy can be identified.

First, energy policy is marked by a tendency to separate technical and political goals. Japan's adminis-

trative-technological response to the energy crises faithfully followed the three goals adopted by the United States-led International Energy Agency in 1974: diversification of oil sources away from the Middle East; diversification away from oil to other types of energy; and conservation measures to lower absolute levels of energy consumption.¹⁴ Japan's political-diplomatic response was a shift to a pro-Arab posture and the promotion of friendly relations with oil-producing countries while maintaining good relations with the United States—a policy that required delicate balancing. This dichotomous approach derives from the dependency of the Japanese economy on Middle East oil and on the United States market.

Second, the Japanese approach has been basically defensive and emphasizes bilateral diplomatic efforts rather than multilateral strategy. By resorting to a pro-Arab "resource diplomacy," Japan sought to develop mutually dependent friendly relations with individual oil-producing countries. This contrasts with the aggressive and confrontational approach of the United States.

Third, again in contrast to the United States emphasis on geopolitical considerations, Japanese energy strategy has been dominated by economic concerns and perspectives. This difference may be explained partly by the difference in self-conception of the United States as a guardian of the free world and Japan as a vulnerable merchant state. Japanese policy assumes that economic interdependence would be the best insurance against a hostile embargo. Although religious and ideological factors are of critical importance in understanding the volatility of politics in the Middle East, underlying economic forces are seen as more important. The majority opinion among MITI officials is that oil cut-offs will not last long and can be met by oil stockpiles without causing catastrophic confusion.¹⁵ Since the early 1960's, Japanese policy has been characterized by a rather nonchalant attitude toward energy security. This attitude may have its roots in the prevailing Japanese concept of national security—defense based on the United States security umbrella.

Fourth, in terms of means, Japanese energy policy has continuously emphasized industrial competitiveness as a critical element in achieving a variety of goals, ranging from energy security to the introduction and development of alternative energy sources. Until the 1973 oil crisis, the cost factor—securing cheap energy—had been a greater concern for Japan's policymakers and industry, particularly the energy-intensive industries, than energy security.

Fifth, a related characteristic of Japan's energy policy has been its reliance on the market as the final determinant of the country's energy supply-demand structure. The Japanese energy program has been designed basically to foster the development of competitive energy sources that would in turn foster the growth of a com-

¹³Natural Resource and Energy Agency, *op. cit.*, pp. 50-54.

¹⁴Ikenberry, *op. cit.*, p. 107.

¹⁵Interviews with officials of MITI, Ministry of Finance and Ministry of Foreign Affairs, conducted in December, 1987.

petitive economy through the maximum utilization of market forces. Environmental problems have been handled within this framework. If interest-group pressure forced the adoption of policies that distorted the market, the government usually reentered to correct market imperfections in support of market forces.

The two energy crises have given the government opportunities to create and expand institutions for managing the energy situation. Yet nationalization of the energy industry has never become an issue; the basic rule has been to let the market manage the matter, including the security of energy supplies.

As previously mentioned, during the period of high economic growth Japan created an energy-intensive industrial structure, which required constantly growing exports to pay for imported oil and other resources. As a result, the government bureaucracy created a maze of budgetary, financial and fiscal institutions to strengthen the competitiveness of promising export industries as well as to smooth the adjustment problems and resistance of the declining industries.

The oil-based economic growth contributed to the concentration of population in the narrow Pacific coastal belt. During the high economic growth period, massive metropolitan concentration occurred without proper city planning or public facilities, creating a poor living environment and overpriced residential land. The prevailing Japanese life-style, described by Europeans as "a workaholic living in a rabbit hutch," is rooted in this pattern of urbanization and, to a significant degree, so is Japan's persistent trade surplus.

Rising land and housing prices have compelled the Japanese to work harder and save more than their Western counterparts: government financial and tax measures helped turn the savings into capital investment, particularly in targeted export industries. The first oil crisis ignited this export-fueled system and caused huge imbalances and bitter frictions in the world economy. Japan's energy policy played a critical role in the process.

The second oil crisis and the yen's appreciation, however, created an environment that has eroded the foundation of the export-fueled system. The structural change from energy-intensive heavy industry to the technology-intensive manufacturing and service industries as the main industrial base of the country has been in progress since the late 1970's, but was accelerated recently by the yen's appreciation.

Japan's political institutions, functioning in a web of economic interests and social obligations, have combined with Japan's consensus decision-making system to act as a formidable force against change. As the history of Japan's energy policy reveals, in many cases vested interests blocked or slowed reforms advocated by the government. When change took place, it was not political leadership but market forces—domestic and international—that eventually prevailed over opposition. In some cases, *gaiatsu* or foreign pressure, concurrent with

international market forces, played an important role in Japanese policy.

It remains to be seen how the proclaimed goal of structural change can be implemented and whether the policy-making pattern can be changed by political leadership or a crisis situation. But it is likely that the globalization of the Japanese economy will push Japanese policy-makers—public and private—into a new arena of political decision-making, and force them to formulate policies based on a broader view of human needs than the interests of their client industries or constituencies.

In spite of MITI's image as the guardian of business interests and the opponent of environmental protection, there has been a steady current within MITI in support of the development of new energy sources and local energy systems based on solar and small-scale hydropower generation. Policy in this direction would complement the dispersion of population and industry from metropolitan centers, a plan that has also been on the political agenda. More generally, when the Japanese economy becomes more self-sufficient in energy, the need to export goods will decrease. There is a real possibility that international influence can help generate domestic pressure in support of Japan's official goals of expanding energy sources and domestic demand. ■

UNITED STATES-JAPANESE RELATIONS

(Continued from page 152)

of booster rockets, and plans to launch an unmanned space shuttle and to make major contributions to an international space station. However, these capabilities need not be deployed by a government at odds with the United States, but can be developed within the United States-Japanese security relationship.

CULTURAL CONSIDERATIONS

Students of Japan are aware that there is a special sense of Japanese "exceptionalism" in Japan. Japanese are Asian, but they live on an island off the coast of Asia. The Japanese culture is unique. Japan has been open to foreigners for little more than 100 years. Few Asians like the Japanese; many of them experienced harsh treatment from Japanese occupation forces during World War II.⁶

Nonetheless, in the modern world, the Japanese and American peoples are increasingly interdependent. American baseball stars finish their careers in Japan. The "Super Bowl" is shown on Japanese television. Michael Jackson records and American fast-food restaurants are ever-present in Tokyo. Japanese businessmen try to purchase waterfront property in Hawaii and gambling casinos in Las Vegas. Japanese students study in all the American institutions of higher education. Just

⁶See the discussion of separateness and internationalism in Edwin O. Reischauer, *The Japanese* (Cambridge: Harvard University Press, 1977), pp. 401-421.

as sushi bars are becoming increasingly popular in major American cities, chains of "7-11's" are appearing all over Japan. Joint ventures between Toyota and General Motors not only make good economic sense but have significant spillover effects in bolstering mutual understanding.

CONCLUSION

It would be a mistake to conclude from this analysis that the difficulties in United States-Japanese economic relations are illusory or of secondary importance. They are not. The simultaneous rise of Japanese economic power and the relative decline of American power have produced major problems that are far from resolved. But a confrontation between the two powers is not inevitable. To lessen the likelihood of such a crisis, the United States must:

- Reduce its budget deficit through selective tax increases and concomitant reductions in expenditures.
- Increase investment in research and development that will ultimately improve the manufacturing sector of the economy.
- Develop a coordinated policy among government, the private sector and the academic community to enhance American competitiveness.
- Establish a comprehensive space policy that coordinates military, commercial and scientific pursuits to ensure that the United States remains a world leader in this field.
- Strengthen the American education system to accentuate the study of science, mathematics and engineering.

For its part, Japan must:

- Continue to lower its nontariff trade barriers and encourage domestic demand.
- Adopt macroeconomic policies in the interests not only of Japan but of the international community.
- Increase its defense expenditures incrementally to strengthen its defense without deploying power projection forces.
- Increase foreign aid to developing countries and take constructive diplomatic initiatives to promote resolution of international disputes.

The Japanese and American governments have it in their power to manage their economic differences effectively while promoting an international political order that is in the interests of the global democracies. This is far preferable to the alternative—permitting economic competition to poison the United States-Japanese relationship. Such an alternative would not be in anyone's interest. ■

TAKESHITA AT THE HELM

(Continued from page 175)

erans. He was thus not entirely a prisoner of the rule but was clearly a conformist.

Rule 4: Veterans should be appointed, not for their specialized knowledge and/or experience in one or two particular areas of public policy but for their wide-

ranging knowledge and experience.

A majority of the veterans reappointed in the succession of Cabinets preceding Takeshita's were retained in the same posts in two, and a few even in three, consecutive Cabinets, usually either because they had not served the normal two-year term in the same posts or because they were involved in some important unfinished tasks. If we exclude such cases, the overwhelming majority (more than three-quarters) had served only once in each of the two or more posts to which they had been previously appointed.

Of the eight veterans with whom Takeshita filled nine posts, two (MOF Minister Miyazawa and MITI Minister Hajime Tamura) were retention cases, and none of the remaining six had served in the same post before. MFA Minister Sosuke Uno, for example, had served previously as MITI minister, and as AMA, STA, and DA director-general. In this regard, too, Takeshita thus faithfully followed the standard operating procedure.

Rule 5: Within each faction, House of Representatives and House of Councillors members are ranked by seniority defined as the number of times a member has been elected to the Diet as a member of the faction. Election once to an upper house seat is equated roughly to election three times to a lower house seat. If one moves from one faction to another, one loses seniority. Within the limits imposed by *Rule 4*, appointment to a Cabinet post, especially of a first-timer, should be based primarily on seniority thus defined, and exceptions should be made very sparingly if intra- and inter-factional harmony is to be maintained.

Exceptions to the rule can be most easily justified in two types of cases: 1) when an old member (normally over 70) is passed over by a younger and lower-ranked member for reasons of age and/or health; and 2) when a lower-ranked member is chosen over a higher-ranked member on the basis of an exceptionally strong qualification, i.e., a higher civil service background. In the 14 Cabinets from 1972 to 1987, 10 individuals were passed over primarily for reasons to do with their age, and 35 individuals were passed over by 10 better qualified ex-bureaucrats. Altogether, 35 individuals were appointed over 60 higher-ranked fellow faction members during the 15-year period.

Understandably, none of the fairly numerous violations of the rule occurred in a presidential faction. It is obviously highly undesirable to risk upsetting order and breaching harmony within one's own faction, and it is therefore logical for a Prime Minister to appoint¹¹ a

¹¹For example, in M-1, Yoshitake Sasaki, a 5-terminer ex-bureaucrat of the Ohira faction, was appointed STA director-general ahead of six other members of the same faction, all with six or more terms under their belts; in O-1, a 4-terminer ex-bureaucrat of the Tanaka faction, Ganri Yamashita, was appointed DA director-general ahead of a fellow 5-terminer, Keizo Obuchi; in N-2, a Komoto faction 6-terminer, Tokuo Yamashita, was appointed MOT minister ahead of a fellow 7-terminer, Takao Fujimoto.

member of someone else's faction out of order, rather than one of his own.

Takeshita adhered to the rule in all but one case, and the one exception was the appointment of a 6-terminer in his own faction, Seiroku Kajiyama, as MOT minister, instead of a 7-terminer, Osamu Takatori.¹² The fact that he took the potentially risky step seems to indicate that Takeshita has his large faction under firm control and that he is a more self-confident and independent leader than many observers have suggested.

It is now clear that Takeshita faithfully followed the conventions of Cabinet-making that had evolved under the LDP's seemingly perpetual one-party rule. All six LDP presidents and Prime Ministers who preceded him had followed those conventions just as predictably. This is particularly true for his immediate predecessor, Nakasone, who in many ways was the most unconventional leader. In fact, Takeshita's record of Cabinet-making resembles Nakasone's more closely than those of the other five.

TAKESHITA'S POLICIES

Institutionalization is an outstanding feature not only of Prime Minister-making and Cabinet-making but also of policy-making in contemporary Japan. Typically, important policies are made and implemented not by a single Prime Minister and his government but under two or more Prime Ministers and governments over time.¹³ Most important public policies in contemporary Japan are government responses to complex problems inherent in the long-term socioeconomic transformation of the

¹²The reason for this apparent aberration is not known, but it may have had to do with the highly conflictual process through which the Takeshita faction divorced itself from the Tanaka faction.

¹³See Fukui, "The Liberal Democratic Party Revisited," p. 421.

¹⁴For relevant comments, see Toshiyuki Masujima, "Gyosei kaikaku no tetsuzuki," in *Nihon seiji gakkai, Gendai nihon no seiji tetsuzuki*, p. 151; Yuzuru Takeshita, "Daimi rincho to gyosei kaikaku," in Akira Nakamura and Yuzuru Takeshita, eds., *Nihon no seisaku katei* (Matsudo: Azusa shuppansha, 1984), pp. 250-289; and Hideo Otake, "Nakasone seiji wo sokessan suru," *Ekonomisuto*, July 14, 1987, p. 30.

¹⁵See Keiichi Matsushita, "Nihon no seisaku kadai to seisaku kosei," in *Nihon seiji gakkai*, ed., *Seisaku kagaku to seijigaku (Nempo seijigaku 1983)* (Tokyo: Iwanami shoten, 1984), pp. 187-190.

¹⁶See Kimihiro Masamuro, "Nyu rida no seiken koso wo kento suru," *Ekonomisuto*, October 20, 1987, pp. 51-53.

¹⁷See Takao Iwami's comments in "Shinsosai Takeshita Noboru wo sotenken suru," *Ekonomisuto*, November 3, 1987, p. 56.

¹⁸For relevant comments, see Haruhiro Fukui, "Japan in 1987," *Asian Survey*, January, 1988.

¹⁹See comments by a Doyukai (Committee for Economic Development) executive, Ken Moroi, in his "Chosei sutairu de wa tanmei ni owaru," *Ekonomisuto*, November 17, 1987, pp. 57-58.

²⁰See, for example, Iwami's and Kenzo Uchida's comments in "Shinsosai Takeshita Noboru," pp. 55-56, 61; and Iwao Nakaya, "Sekai ni nihon no ibasho wo meiji seyo," *Ekonomisuto*, November 17, 1987, p. 49.

country. In its first year, Takeshita's government is thus likely to be dealing with policies inherited from Nakasone, rather than formulating new policies.

During the five years of his tenure, Nakasone accomplished several highly visible policy goals, popularly known as "administrative reforms," which had been initiated by his predecessor, Suzuki, and developed by a blue-ribbon commission, the Second Ad Hoc Administrative Reform Investigation Council (Daini rincho). These included the privatization of the three major public enterprises, i.e., the Monopoly (tobacco), the Telegraph and Telephone, and the National Railway corporations; the revisions of the pension and health insurance laws; and partial reform of the tax system and of inter-government (center-local) relations.¹⁴ Nakasone and his predecessors, however, also left a large array of complex and controversial policy issues for Takeshita to resolve.¹⁵

While they were campaigning for the party presidency and the prime ministership in the fall of 1987, Takeshita and his two rivals all spoke of the urgent need to develop an urban land use plan to halt the galloping land price inflation in metropolitan areas, to develop additional tax reforms to reduce the huge budget deficits, to improve United States-Japanese relations, especially recurrent trade disputes, and to promote closer cooperation with other Asian Pacific nations.¹⁶ In a press interview held in late October, 1987, Takeshita defined his four specific policy goals as: control of the land price inflation; continuation of administrative reforms; additional tax reform; and improvement of United States-Japanese relations.¹⁷

There is no reason to doubt Takeshita's sincerity in pledging his best effort to resolve these four issues during his tenure. There is, however, no more reason to believe that any of these issues will prove easier for him to tackle than they were for his predecessor. Nakasone tried hard and failed to reform the tax system significantly by introducing a general sales tax, and he was unable to open the Japanese economy to freer international competition.¹⁸ As a prominent Japanese businessman has warned in a Japanese magazine, Takeshita's chances do not look any better.¹⁹

It would nonetheless be a serious mistake to dismiss Takeshita as a lackluster, nonperforming figurehead. Virtually all commentators refer to his consensus-building style and horse-trading skills, and many observers relate his skills to his upbringing as the son of a provincial politician and sake (rice wine) brewer in Shimane, one of modern Japan's least developed prefectures.²⁰ These qualities may make a more effective Japanese Prime Minister in the highly institutionalized, rule-bound arena of decision-making. If so, Takeshita may be better able to accomplish his policy goals than most of us are willing to bet, before he yields his office to Abe in all likelihood at the end of his first two-year term. This change will be consistent with still another important (though by no means inviolable) rule of recent LDP politics. ■

THE MONTH IN REVIEW

A Current History chronology covering the most important events of February, 1988, to provide a day-by-day summary of world affairs.

INTERNATIONAL

Central American Peace Plan

(See also *Nicaragua*)

Feb. 18—Nicaraguan government negotiators and the representatives of the contras open a 2d round of direct peace talks in Nicaragua.

Feb. 19—The mediator in the Sandinista-contra peace talks, Cardinal Miguel Obando y Bravo, indefinitely suspends the negotiations; Cardinal Obando y Bravo says that the Sandinistas must implement more aspects of the Central American peace plan to "create the minimum atmosphere of confidence" needed to conduct cease-fire talks.

European Economic Community (EEC)

Feb. 13—A 2-day emergency meeting of the EEC ends as a compromise solution on agricultural subsidies is reached and the leaders of the EEC member nations agree on a budget; the EEC has been deadlocked on the budget issue since the December, 1987, summit in Copenhagen.

International Terrorism

Feb. 12—A court in Rome sentences convicted Palestinian terrorist Ibrahim Mohammed Khaled to 30 years in prison for his part in the attack on Rome's Leonardo da Vinci airport in December, 1985. The court also convicts in absentia Palestinian guerrilla leader Abu Nidal.

Iran-Iraq War

Feb. 12—In the Persian Gulf, an Iranian helicopter attacks a Danish-registered supertanker, killing 1 crewman and wounding 3 others.

Feb. 13—In the Persian Gulf, an Iraqi plane launches a missile that comes close enough to the destroyer U.S.S. *Chandler* to send the crew to battle stations.

Feb. 27—Iraq claims that its planes raided Teheran and carried out "devastating raids" against refineries in Iran.

Feb. 29—In an escalation of the war, Iran and Iraq exchange surface-to-surface missile attacks on each other's capital cities, Baghdad and Teheran.

North Atlantic Treaty Organization (NATO)

(See *U.S., Foreign Policy*)

Organization of American States (OAS)

Feb. 12—In Washington, D.C., the Panamanian minister counselor to the OAS, Lawrence Chewning Fabréga, resigns to protest his government's "corruption, illegitimacy and dishonesty."

United Nations (UN)

(See also *U.S.S.R.*)

Feb. 1—The U.S. vetoes a UN Security Council resolution that is critical of Israel's efforts to restore order in its occupied territories.

Feb. 17—U.S. Marine Lieutenant Colonel William R. Higgins, assigned to the UN truce-monitoring force in southern Lebanon, is kidnapped near the city of Tyre by an unidentified group of terrorists.

Feb. 19—A group calling itself the Organization of the Oppressed on Earth claims credit for the kidnapping of Lieutenant Colonel Higgins, calling him a CIA (U.S. Central Intelligence Agency) agent; the Shiite Amal group in southern

Lebanon is trying to recover Lieutenant Colonel Higgins.

AFGHANISTAN

(See *U.S.S.R.; U.S., Foreign Policy*)

ANGOLA

(See *South Africa*)

AUSTRIA

Feb. 8—A committee of historians, commissioned by Austrian President Kurt Waldheim to investigate allegations that Waldheim was guilty of war crimes as a member of the German army during World War II, concludes that Waldheim was not guilty of specific war crimes, although he was aware of atrocities and tried to conceal his military record.

Feb. 14—Austrian Chancellor Franz Vranitzky threatens to resign because of the controversy surrounding President Waldheim; however, Chancellor Vranitzky stops short of demanding Waldheim's resignation.

Feb. 15—In a televised address, President Waldheim says that he will not resign "in the face of slanders, hateful demonstrations and wholesale condemnations."

BANGLADESH

Feb. 10—Sources report that at least 80 people have died because of violence between rival political factions during local elections held today.

CANADA

Feb. 3—Prime Minister Brian Mulroney dismisses Michel Cote, his supply and services minister; Cote has been under investigation by the House of Commons for violating conflict-of-interest guidelines.

CENTRAL AFRICAN REPUBLIC

Feb. 29—The death sentence of former ruler Jean-Bedel Bokassa is commuted by President André Kolingba to life in prison in solitary confinement.

CYPRUS

Feb. 14—In the resort town of Limassol, 3 officials of the Palestine Liberation Organization (PLO) are killed when a bomb planted in their car explodes.

Feb. 15—A boat docked in Limassol that was charted by the PLO to carry Palestinian refugees to Israel is damaged by a small explosion in its hull.

Feb. 21—George Vassiliou is elected President of the Republic of Cyprus; he defeats Glafkos Clerides in a runoff election.

CZECHOSLOVAKIA

(See *U.S.S.R.*)

DENMARK

(See *Intl, Iran-Iraq War*)

DOMINICAN REPUBLIC

Feb. 25—In response to demonstrations in protest of the high cost of living in the Dominican Republic, President Joaquín Balaguer dismisses his Cabinet.

ECUADOR

Feb. 1—Democratic Left party candidate Rodrigo Borja Cevallos wins 21 percent of the vote in today's presidential election. Borja will face the 2d place candidate, Abdalá Bucaram Ortiz of the Roldosista party, in a runoff election on May 8.

EGYPT

(See also *U.S., Foreign Policy*.)

Feb. 18—Egypt's chief prosecutor announces the indictment of Khalid Abdel Nasser, the son of the late President Gamal Abdel Nasser, on charges of organizing and financing attacks on U.S. and Israeli diplomats. The indictment accuses Khalid Nasser, who is in self-exile in Yugoslavia, of belonging to an outlawed extremist group, and asks for the death penalty.

EL SALVADOR

Feb. 17—Guerrillas from the Farabundo Martí National Liberation Front kill 12 people, including a family of 7, in an attack on the main government headquarters in Usulután.

ETHIOPIA

Feb. 12—The government denies reports from foreign relief officials that on February 11 Ethiopian soldiers fired on a group of drought victims and killed 20 people at a town in the region of Tigre.

FINLAND

Feb. 1—President Mauno Koivisto fails to receive a majority of votes in today's presidential election. Under Finland's election laws, the electoral college will choose a President on February 15 from among the 1st five finishers.

Feb. 15—President Mauno Koivisto is appointed to a 2d term as a result of today's voting in the electoral college.

GERMANY, EAST

(See *U.S.S.R.*)

GERMANY, WEST

(See *U.S., Foreign Policy*)

HAITI

Feb. 7—Leslie Manigat is sworn in as President in a ceremony at Port-au-Prince.

INDIA

Feb. 25—Prime Minister Rajiv Gandhi says that India has completed a successful first-ever test launch of an Indian-designed surface-to-surface missile; Prime Minister Gandhi claims that India is now the 5th nation to possess the capability to manufacture this type of surface-to-surface missile.

INDONESIA

Feb. 27—President Suharto replaces armed forces commander General Benny Murdani with General Try Sutrisno; General Murdani has been regarded as the 2d most powerful figure in Indonesia.

IRAN

(See *Intl, Iran-Iraq War*)

IRAQ

(See *Intl, Iran-Iraq War; U.S., Political Scandal*)

IRELAND

(See *U.K., Great Britain*)

ISRAEL

Feb. 4—In the Gaza Strip, Prime Minister Yitzhak Shamir tours 2 refugee camps and promises that conditions will be improved in the future.

2 Israeli soldiers and 1 Palestinian guerrilla die in a skirmish at Israel's border with Lebanon.

Feb. 7—In the West Bank village of Beit Omar, 3 Palestinians are killed when Israeli soldiers fire into a crowd that has been throwing rocks at the soldiers.

Feb. 15—The Israeli Army announces that it will investigate allegations that 2 of its soldiers buried alive 4 Palestinians in the West Bank town of Salim on February 5. Palestinian sources claim that the soldiers covered the victims with dirt from a bulldozer. Of the 4 victims, who were later unearthed by villagers, 3 received minor injuries, while the other victim spent 8 days in a hospital.

Feb. 20—In a clash at a West Bank refugee center, 2 Palestinians are shot to death by Israeli troops; independent sources estimate that 61 Palestinians have died since the violence in the West Bank and Gaza began in December, 1987.

Feb. 23—Unidentified guerrillas ambush an Israeli army patrol in the Israeli-designated security zone in southern Lebanon, killing 2 soldiers.

Feb. 24—In the West Bank village of Qabatiya, Mohammed Ayad, an Arab citizen accused by Palestinians of collaboration with Israeli authorities, is lynched by a mob of Arab villagers. Ayad had fired into the crowd with a machine gun, killing a 4-year-old boy, after the mob burned down his house.

ITALY

Feb. 10—Prime Minister Giovanni Goria submits his resignation to President Francesco Cossiga; Prime Minister Goria, who took office on August 1 as head of Italy's 47th government, is asked to stay on until a new Prime Minister is appointed.

Feb. 17—Fugitive financier Licio Gelli is extradited from Switzerland to Italy; Gelli, who has legally resisted attempts by the Italian government to extradite him on terrorism and subversion charges since 1983, is handed over to Italian authorities on condition that he be prosecuted only on charges involving financial irregularities.

JAPAN

(See *U.S., Foreign Policy, Labor and Industry*)

JORDAN

(See *U.S., Foreign Policy*)

KOREA, SOUTH

(See also *U.S., Foreign Policy*)

Feb. 8—Kim Young Sam resigns as president of the Reunification Democratic party; Kim Young Sam, who was a candidate in the December, 1987, presidential election, will be succeeded as party leader by Kim Myung Yoon.

Feb. 19—Roh Tae Woo, South Korea's President-elect, announces 23 Cabinet appointments; President-elect Roh retains 7 ministers from the Cabinet of his predecessor, President Chun Doo Hwan.

Feb. 25—Roh Tae Woo is inaugurated in Seoul and begins his 5-year term as President.

Feb. 28—According to reports from Seoul, South Korea's 2 main opposition parties have reached an informal agreement to merge before National Assembly elections are held this spring.

LAOS(See *Thailand*)**LEBANON**(See *Israel; U.S., Administration*)**NAMIBIA**(See also *South Africa*)

Feb. 19—A bomb blast at the South African military-civilian complex of Oshakati kills at least 14 people and wounds 30 others; no group claims responsibility for the act, although the government of South Africa blames the guerrilla group Swapo (South-West African People's Organization).

NICARAGUA(See also *Intl, Central American Peace Plan; U.S., Foreign Policy, Legislation*)

Feb. 4—President Daniel Ortega Saavedra says that, despite the rejection of contra aid by the U.S. Congress, U.S. President Ronald Reagan's officials are "considering different ways to maintain their war against Nicaragua."

Contra military leader Colonel Enrique Bermúdez vows to continue the struggle against the Sandinista government even without U.S. financial support.

Feb. 10—Aristides Sánchez, leader of the contras' political organization, says that the contras will attend cease-fire negotiations with the Sandinistas scheduled to start February 18; the contras threatened to boycott the discussions in response to the decision by the U.S. Congress to curtail contra aid.

PAKISTAN(See *U.S., Foreign Policy*)**PANAMA**(See also *Intl, OAS; U.S., Foreign Policy*)

Feb. 4—Former military commander General Rubén Paredes accuses Panama's de facto leader General Manuel Noriega of murder, drug trafficking and money laundering. Specifically, Paredes says that his son, Rubén Paredes Jr., was assassinated in 1986 at the order of General Noriega.

Feb. 5—The U.S. Justice Department brings 2 indictments against General Noriega on drug-trafficking charges, saying that Noriega received \$4.6 million to provide airstrips for drug smuggling. Also named in the indictments are 15 other defendants, including Arnet Paredes, the son of former Panamanian military commander Rubén Paredes.

The Foreign Ministry "energetically and indignantly rejects" the U.S. Justice Department allegations.

Feb. 7—The Panamanian government recalls its ambassador to the U.S. for "urgent consultations."

Feb. 11—Testifying before a U.S. congressional committee, Ramon Milan Rodriguez, an accountant convicted of money laundering, says that from 1979 to 1983 he paid General Noriega a "ballpark figure" of between \$320 million and \$350 million for Noriega's assistance in laundering drug money.

Feb. 25—Panama's President, Eric Arturo Delvalle, announces that he has dismissed General Noriega as the commander of the defense forces.

Feb. 26—Under the orders of General Noriega, his followers in the National Assembly oust President Delvalle and name Education Minister Manuel Solís Palma as Panama's new President.

Feb. 27—Sources report that President Delvalle has gone into hiding in the Panamanian countryside, but "is willing to continue the fight."

PARAGUAY

Feb. 14—General Alfredo Stroessner is elected to his 8th term as President, receiving 89 percent of the vote; opposition leaders claim that the results of the election were rigged.

PHILIPPINES

Feb. 4—The military chief of staff, General Renato de Villa, announces that 20 key members of the Communist party were arrested as the result of a series of raids that occurred on February 3.

PORTUGAL(See *U.S., Foreign Policy*)**ROMANIA**(See *U.S., Foreign Policy*)**SOUTH AFRICA**(See also *Namibia*)

Feb. 10—South African troops quell an attempted coup against the leadership of the tribal homeland of Bophuthatswana; President P.W. Botha says that the government took action because the leaders of the coup seized power in an "irregular and violent manner."

Feb. 20—South African military aircraft attack a pair of Swapo guerrilla bases in southern Angola in retaliation for the February 19 bombing of a South African military complex in Namibia.

The military says that 2 South African jets were downed during fighting in Angola; one of the pilots is missing.

Feb. 24—The government announces that it will prohibit the 17 largest anti-apartheid organizations in South Africa from "carrying on or performing any acts whatsoever." Included in the list of restrictions, the harshest yet instituted in the 20-month state of emergency, is a ban on the activities of 18 anti-apartheid leaders and further restrictions on South Africa's largest labor union.

Feb. 29—Police arrest and later release 24 clergymen, including Archbishop Desmond Tutu and the Reverend Allan Boesak, at a demonstration in Johannesburg, which was held to advocate civil disobedience as a method to protest recent government actions against anti-apartheid organizations.

SYRIA(See *U.S., Foreign Policy*)**SWITZERLAND**(See *Italy*)**THAILAND**

Feb. 3—Thailand initiates a series of air strikes against Laotian forces stationed at the Thai-Laotian border area on the Heung Nga river; since December, 1987, over 100 Thai and Laotian soldiers have died in fighting over the 30 square miles of land in dispute.

Feb. 17—After 2 days of negotiations, Thailand and Laos agree to a cease-fire in their border dispute.

U.S.S.R.(See also *U.S., Foreign Policy, Science and Space; Vatican*)

Feb. 1—The Soviet Union announces that former Prime Minister and Communist party leader Georgi Malenkov died last month at the age of 86. The time and place of Malenkov's death are not disclosed.

Feb. 2—In a statement from Tass (the official Soviet news agency), the Foreign Ministry says that a transcript of Boris Yeltsin's October, 1987, speech to the Communist party Central Committee, which appeared in the French news-

paper *Le Monde* yesterday, is a "fabrication."

Feb. 5—A special commission announces that Communist theoretician Nikolai Bukharin, who was executed in 1938, was unlawfully convicted of treason. The commission says that the Supreme Court has overturned the 1938 conviction of Bukharin.

Feb. 8—General Secretary Mikhail Gorbachev says that the Soviet Union will withdraw its forces from Afghanistan starting on May 15 on condition that a settlement is reached at the UN-sponsored Geneva peace talks by March 15; General Secretary Gorbachev adds that the withdrawal offer is not contingent on Soviet approval of the future Afghan government and that the withdrawal will be completed within 10 months.

Feb. 17—In a speech to the Communist party Central Committee, Yegor Ligachev openly criticizes the Soviet Union's educational system; Ligachev, who is regarded as the 2d most powerful figure in Soviet politics, says that educational institutions are in need of reorganization.

Feb. 18—As the 2-day Central Committee meeting concludes, General Secretary Gorbachev defends his recent foreign policy initiatives and his domestic policy of *perestroika*. In party leadership changes announced at the end of the Central Committee meeting, former Moscow party leader Boris Yeltsin is officially removed from the Politburo while 2 allies of General Secretary Gorbachev's, Georgi Razumovsky and Yuri Maslyukov, are named as nonvoting Politburo members.

Feb. 23—Tass reports a "breaching of public order" in the Azerbaijan Republic when an estimated 200,000 Armenian nationalists march in Yerevan to demand the attachment of Armenian-dominated areas of Azerbaijan to the Armenian Republic.

Feb. 25—Soviet soldiers begin the removal of nuclear missiles from East Germany and Czechoslovakia; the SS-12 rockets are deactivated and then placed on trains bound for the Soviet Union.

Feb. 26—The protests in Armenia temporarily abate when General Secretary Gorbachev makes a personal appeal to the demonstrators in a television address.

Feb. 27—Leaders of the Armenian nationalist movement say they will call for a 1-month suspension of protests in response to General Secretary Gorbachev's appeal.

Feb. 29—The government reports that rioting between Azerbaijanis and Armenians occurred in the Azerbaijani city of Sumgait on February 28.

UNITED KINGDOM

Great Britain

Feb. 16—William Quinn, a U.S. citizen who was a member of the Irish Republican Army and was extradited from the U.S., is convicted of the 1975 murder of a British policeman and sentenced to life in prison.

Feb. 23—Robert Thain, the only British soldier ever to receive a life sentence for the murder of a Northern Irish civilian, is paroled and restored to duty after serving 26 months in prison; Thain's parole is vehemently protested by the government of the Republic of Ireland.

Northern Ireland

(See *U.K., Great Britain*)

UNITED STATES

Administration

1—The Labor Department reports that in 1987, women's salary levels reached 70 percent of men's salary levels, up 62.5 percent in 1979.

Feb. 2—The Securities and Exchange Commission (SEC) calls for changes in the rules governing trading of stock index futures; such changes might reduce wild fluctuations in stock prices.

The Atomic Safety and Licensing Board rejects an emergency evacuation plan for the Shoreham (N.Y.) nuclear plant of the Long Island Lighting Company and refuses to license the plant's operation.

President Ronald Reagan nominates Anthony M. Frank as the next Postmaster General; if approved, Frank will take office March 1.

Feb. 11—Former White House adviser Lyn Nofziger is convicted in U.S. district court of 3 out of 4 illegal lobbying charges under the Ethics in Government Act.

Feb. 14—It is reported today that on February 12, U.S. District Court Judge Thomas Hogan ruled that naturalized U.S. citizens have the same rights to security clearance as native-born U.S. citizens; the Defense Department has ruled for 13 months that naturalized citizens from some 30 countries considered "adverse" to the U.S. may hold only restricted-level clearance.

Feb. 18—President Reagan sends his fiscal 1989 budget of \$1.09 trillion to Congress; the terms of the budget generally follow the budget-reducing agreements the administration negotiated with Congress. Military spending will grow slightly to \$299.5 billion, with increases for education, science, and health (specifically Acquired Immune Deficiency Syndrome, or AIDS, research). The proposed budget includes a deficit of \$129.5 billion.

Feb. 22—Navy Secretary James D. Webb Jr. resigns his post because of disagreements with Defense Secretary Frank Carlucci over the U.S. Navy budget.

According to the General Accounting Office (GAO), the Internal Revenue Service's telephone answering service replies to taxpayers' queries are incorrect in 39 percent of the cases.

Feb. 23—President Reagan nominates William Ball 3d as the new Secretary of the Navy.

Feb. 24—In his 1st televised news conference in 4 months, President Reagan says "we will never" let up in our efforts to free the hostages in Lebanon; President Reagan also proclaims that he has "every confidence" in Attorney General Edwin Meese 3d.

President Reagan's AIDS commission calls for a \$2-billion annual effort to expand treatment programs for drug abusers; the commission calls drug abusers the greatest risk in the spread of AIDS.

Civil Rights

Feb. 10—Secretary of Education William Bennett declares that Delaware, Florida, Georgia, Missouri, Oklahoma and Virginia are still in partial violation of a 17-year-old court order to desegregate their public colleges and to remove the effects of past segregation; 4 other states have not fully met the goals and timetable set in 1978.

Economy

Feb. 2—Most leading banks lower their prime rate to 8.5 percent.

The Commerce Department reports that its index of leading economic indicators declined 0.2 percent in December.

Feb. 4—Subject to the approval of the Securities and Exchange Commission (SEC), the board of the New York Stock Exchange votes unanimously to restrict one form of computerized stock trading (program trading) whenever the market rises or falls 50 points on any day. Program trading is believed to have contributed to the market decline of over 500 points last October 19.

Feb. 5—The Labor Department reports that the nation's unem-

ployment rate remained at 5.7 percent in January. Feb. 12—The Labor Department reports that its producer price index rose 0.4 percent in January.

The Commerce Department reports that the nation's foreign trade deficit declined to \$12.2 billion in December; for all of 1987 the deficit was \$171.2 billion.

Feb. 25—The Commerce Department reports that the nation's gross national product (GNP) grew at a 4.5 percent annual rate in the last quarter of 1987.

Feb. 26—The Labor Department reports that its consumer price index rose 0.3 percent in January.

Feb. 29—The New York Stock Exchange's Dow Jones Industrial Average of 30 blue-chip stocks closes at 2,071.62 points, its highest level since October, 1987.

Foreign Policy

(See also *Intl, UN; Panama; U.K., Great Britain; Vatican*)

Feb. 1—In Jerusalem, Israeli Foreign Minister Shimon Peres describes a new U.S. peace initiative for the Middle East under which elections would be held for self-government in the Israeli-occupied West Bank and the Gaza Strip and there would be a new agenda for a Middle East peace conference.

Feb. 2—In an address not carried live by the major networks, President Ronald Reagan presses for at least \$43 million in aid for the Nicaraguan contras; he agrees to allow Congress greater discretion in releasing the military part of the aid.

Feb. 3—Defense Secretary Frank Carlucci arrives in Lisbon to discuss with Portuguese officials the future of U.S. military bases in Portugal.

The Defense Department announces that Defense Secretary Carlucci will meet with Defense Minister Dmitri Yazov of the Soviet Union on March 16. The 2 defense ministers are scheduled to discuss arms control and other issues of mutual importance.

Feb. 5—In Miami U.S. District Court, a federal grand jury returns 2 indictments against Panamanian leader General Manuel Noriega for accepting \$4.6 million in bribes to assist drug traffickers; the Panamanian Foreign Ministry denies the charges.

Feb. 7—In Munich, West Germany, Defense Secretary Frank Carlucci calls on the West European allies to honor their 5-year-old commitment to modernize their short-range nuclear weapons.

Feb. 10—Commerce Secretary William C. Verity Jr. declares Japan is in violation of an agreed-on international moratorium on commercial whaling; President Reagan now has 60 days to inform Congress about what action he will take; President Reagan may declare an embargo on fish imports from Japan.

The State Department's annual report on human rights around the world, *Country Reports on Human Rights Practices for 1987*, cites some improvement in the Soviet Union, and singles out North Korea as the worst offender.

Feb. 11—White House Chief of Staff Howard Baker Jr. and National Security Adviser Lieutenant General Colin Powell issue a letter informing government officials that the administration has forbidden officials to "provide assistance or encouragement of any kind to private individuals or third parties raising funds" for the Nicaraguan contras; the letter also bans private participation in meetings where such aid is discussed.

Feb. 12—The Defense Department reports that 2 Soviet warships nudged 2 U.S. Navy warships in the Black Sea today. The incident occurs in an area that the U.S. claims is in international waters, while the Soviet Union insists that the U.S. warships violated its 12-mile territorial waters limit; in response, the U.S. lodges a diplomatic protest.

Feb. 13—In Mazatlan, Mexico, President Reagan meets with

Mexican President Miguel de la Madrid; de la Madrid defends Mexico's efforts to control drug trafficking; President Reagan expresses his concern that "this is the year we have to show results."

Feb. 19—A State Department report prepared by the Bureau of International Narcotic Matters says that although Panama and Mexico have not adequately controlled the drug traffic, they should not be penalized by losing U.S. military, economic and trade benefits; the report cites their strategic importance to the U.S.

In Washington, D.C., President Reagan meets with West German Chancellor Helmut Kohl; they agree to review NATO arms-control strategy.

Feb. 21—In Moscow, Secretary of State George Shultz meets with Soviet Foreign Minister Eduard Shevardnadze to discuss human rights, emigration and arms control.

Feb. 22—Shultz concludes 2 days of discussions in Moscow on arms control for long-range (strategic) nuclear weapons; the participants agree that some major problems have been resolved.

Feb. 23—Secretary Shultz meets in Brussels with NATO leaders to brief them on his recent discussions in Moscow.

The State Department recommends that President Reagan penalize Panama for failing to take adequate measures to control drug trafficking.

Feb. 24—In Pakistan, Under Secretary of State for Political Affairs Michael Armacost meets with 7 Afghan guerrilla leaders to discuss the proposed Soviet troop withdrawal from Afghanistan.

Feb. 25—Secretary Shultz meets in Jerusalem with Israeli officials to discuss the details of a new U.S. peace initiative for the Middle East and the Israeli-occupied territories; he urges Israel to reach a final agreement in a "historic act" to change the status quo in the Middle East.

The White House gives "unqualified support for civilian constitutional rule in Panama" when it learns of the dismissal of General Noriega by Panamanian President Eric Arturo Delvalle.

A presidential commission, headed by former Defense Secretary Melvin Laird, faults State Department officials, the U.S. ambassador to the Soviet Union, and the U.S. Marine Corps for the neglect in security that allowed the environment for the secrets-for-sale scandal at the U.S. embassy in Moscow. Laird says that conditions at the embassy were a "national disgrace."

Feb. 26—In South Korea, Treasury Secretary James Baker 3d tells officials of the recently elected government of South Korea that the U.S. expects South Korea to import more U.S. goods and to improve the strength of its currency.

In Jerusalem, Secretary of State Shultz meets with Israeli Prime Minister Yitzhak Shamir, who is reported to disagree with the 2 main elements of Shultz's Middle East peace plan.

The State Department reports that Romania has said that it will no longer accept most-favored-nation trade benefits from the U.S., apparently in reaction to U.S. criticism of the human rights and emigration policies of Romania.

U.S. authorities in Panama restrict the activities of U.S. military personnel stationed in Panama.

Feb. 27—Shultz meets with Syrian and Jordanian leaders to discuss his peace plan; little progress is reported.

Feb. 28—Shultz meets in Cairo with Egyptian President Hosni Mubarak for 3 hours; Mubarak is reported to support Shultz's efforts for peace in the Middle East.

President Reagan signs an order to "decertify" Panama and other countries for failing adequately to control drug trafficking; he is not expected to impose severe trade sanctions against them on March 1.

Feb. 29—Secretary of State Shultz returns to Jordan to continue

his Middle East peace initiative; Syria calls his plans a "fig leaf" to disguise Israeli goals.

Labor and Industry

Feb. 9—The General Motors Corporation announces that its 1987 earnings have risen 27 percent to \$3.6 billion.

The United Mine Workers union approves a new 5-year contract with most major coal mine operators; the contract will provide the workers with improved benefits.

Feb. 16—The Firestone Tire and Rubber Company announces the sale of 75 percent of its tire operations to the Bridgestone Corporation of Japan for \$1 billion; Firestone says that it made the sale in order to concentrate on other aspects of its business.

Feb. 18—The Ford Motor Company reports a largest-ever yearly profit for an automobile company, \$4.6 billion for 1987, with 4th quarter earnings of \$932 million.

Feb. 23—Texaco Incorporated agrees to pay \$1.25 billion to the Energy Department for overcharging customers in 1973-1981 for its products, during a period when U.S. price controls were still in effect.

Legislation

Feb. 3—The House votes 219 to 211 against a bill supported by the President calling for a 4-month aid package of at least \$43 million for the Nicaraguan contras.

The Senate confirms Judge Anthony M. Kennedy 97 to 0 as a Supreme Court justice.

The House, in a 384-1 vote, and the Senate, in a voice vote, agree to rescind \$8 million appropriated for building schools in France for North African Jewish refugees; Senator Daniel Inouye (D., Hawaii), the author of the proposal, asked that the measure be rescinded.

Feb. 4—The Senate votes 51 to 48 to support President Reagan's request for \$43 million in aid for the contras, even though the House has already rejected the measure.

Feb. 9—House Speaker Jim Wright (D., Tex.) sends letters to President Reagan and Secretary Shultz asking for their support in formulating a bipartisan aid package for the contras to replace the \$43-million appropriation turned down by the House.

Military

Feb. 8—The Defense Department announces the successful test of a military satellite designed to detect and track enemy missiles in space as part of a 12-hour test of the Strategic Defense Initiative (SDI) technology.

Feb. 17—Assistant Defense Secretary Richard Armitage says that the U.S. is able to supply "the same level of protection with fewer ships" in the Persian Gulf. The U.S. naval force in the Persian Gulf has recently been reduced to 28 ships from its highest level of 33 ships.

Feb. 23—The U.S. Army announces that it plans to dispose of its aging stockpile of chemical weapons; officials say that the obsolete weapons will be burned in closed incinerators to be constructed at 8 chemical weapons storage depots.

Political Scandal

Feb. 22—In a memo to Attorney General Edwin Meese 3d, made public today by his lawyers, reference is made to a suggestion that "a portion" of possible profits from a projected Iraqi pipeline across Jordan would "go directly" to Israel and the Israeli Labor party for Israel's assistance and protection; the pipeline was never started and Israeli Foreign Minister Shimon Peres denies that such an offer was ever made.

Feb. 23—The Justice Department claims that it did not provide the congressional Iran-contra committee with a memo to Meese about the Iraqi pipeline deal because the memo was not covered by the committee subpoena for documents.

Politics

Feb. 5—The Arizona House of Representatives votes 46 to 14 to impeach Governor Evan Meacham; he will stand trial in the state Senate.

Feb. 8—In the Iowa Republican caucuses, Senator Robert Dole (R., Kans.) wins over Vice President George Bush, with religious leader Marion G. (Pat) Robertson in 3d place. In the Democratic caucuses, Representative Richard Gephardt (D., Mo.) wins over Senator Paul Simon (D., Ill.) and Massachusetts Governor Michael Dukakis.

Feb. 12—General Alexander Haig Jr. withdraws as a candidate for the Republican presidential nomination.

Feb. 16—In the Republican New Hampshire primary, Vice President Bush wins 38 percent of the vote; Dole wins 29 percent, Congressman Jack Kemp (R., N.Y.) wins 13 percent, former Delaware Governor Pierre (Pete) Dupont wins 11 percent and Robertson wins 10 percent of the vote.

In the New Hampshire Democratic primary, Dukakis wins 36 percent, Gephardt wins 20 percent, Simon wins 17 percent, activist Jesse Jackson wins 8 percent, Senator Albert Gore (D., Tenn.) wins 7 percent, former Arizona Governor Bruce Babbitt wins 5 percent, and former Senator Gary Hart (D., Colo.) wins 4 percent.

Feb. 18—Former Delaware Governor Pete Dupont drops out of the race for the Republican presidential nomination and former Arizona Governor Bruce Babbitt quits the Democratic race.

Feb. 23—In the South Dakota Republican primary, Dole wins over Bush and Robertson; in South Dakota's Democratic primary, Gephardt wins over Dukakis.

In the Minnesota Republican caucuses, Dole wins over Bush and Robertson, while Dukakis wins over Jackson in the Democratic caucuses.

Feb. 28—In the Maine caucuses, Dukakis wins over Jackson in the Democratic caucuses, while Bush wins over Robertson in the Republican caucuses.

Science and Space

Feb. 20—The Commerce Department approves an agreement between U.S. Payload Systems Incorporated and the government of the Soviet Union; the Soviet Union will perform experiments on the orbiting Soviet space station *Mir* on protein crystal growing to develop new drugs for the U.S. company.

Supreme Court

Feb. 18—Anthony Kennedy is sworn in as an Associate Justice of the Supreme Court.

Feb. 22—Without comment, the Court refuses to hear an appeal from a lower court decision that denied a suit by parents in Tennessee to prevent the state's public schools from requiring that their children participate in studying texts the parents consider "godless" and contrary to their belief in the literal Bible.

Feb. 25—In an 8-0 decision, the Court reaffirms rules protecting free speech criticizing public figures even if such speech takes "outrageous" forms; the Court overrules a lower court award of \$200,000 to evangelist Jerry Falwell for "emotional distress" over a sarcastic and probably obscene satire printed by *Hustler* magazine.

In a 6-2 decision, the Court upholds rent-control laws enacted by the city of San Jose, California.

VATICAN

Feb. 19—Pope John Paul II issues an encyclical letter in which he criticizes the U.S. and the Soviet Union for exploiting poorer nations as part of the ideological struggle between the 2 nations.



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